

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name City of Kalamazoo	County Kalamazoo
Fiscal Year End December 31, 2006	Opinion Date June 28, 2007	Date Audit Report Submitted to State June 29, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

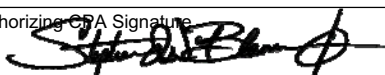
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☒ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☒ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe) Single Audit	<input checked="" type="checkbox"/>			
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 517.787.6503		
Street Address 675 Robinson Road		City Jackson	State MI	Zip 49203
Authorizing CPA Signature 		Printed Name Stephen W. Blann, CPA, CGFM		License Number 24801

CITY OF KALAMAZOO, MICHIGAN

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

City Commission

**Hannah J. McKinney, Mayor
Bobby J. Hopewell, Vice Mayor**

**Don Cooney
David Anderson
Mary Balkema
Barbara Hamilton Miller
Sean McCann**

Prepared by: Management Services Department, Budget & Accounting Division

City Manager: Kenneth P. Collard, ICMA-CM, P.E.

**Independent Auditors:
Rehmann Robson**

**Cover design by: Ava Garrison
Cover printed by: Allegra Print & Imaging**

CITY OF KALAMAZOO, MICHIGAN
Comprehensive Annual Financial Report
For the Fiscal Year Ended December 31, 2006

TABLE OF CONTENTS

	<u>PAGE</u>
 <i>INTRODUCTORY SECTION</i>	
Letter of Transmittal	i-v
Functional Organization Chart.....	vi
List of Principal Officials.....	vii
Certificate of Achievement for Excellence in Financial Reporting.....	viii
 <i>FINANCIAL SECTION</i>	
Independent Auditors' Report.....	1-2
Management's Discussion and Analysis.....	3-20
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	21
Statement of Activities.....	22
Fund Financial Statements:	
Balance Sheet – Governmental Funds	23
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	24
Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds.....	25
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	26
Statement of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund.....	27-28
Statement of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual – Solid Waste Fund	29
Statement of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual – Neighborhood and Community Development	30
Statement of Net Assets – Proprietary Funds	31
Reconciliation of Net Assets on the Statement of Net Assets for Enterprise Funds to Net Assets of Business-type Activities on the Statement of Net Assets	32
Statement of Revenue, Expenses and Changes in Fund Net Assets – Proprietary Funds	33
Reconciliation of the Statement of Revenue, Expenses and Changes in Fund Net Asset of Enterprise Funds to the Statement of Activities.....	34
Statement of Cash Flows – Proprietary Funds.....	35-36
Statement of Fiduciary Net Assets	37
Statement of Changes in Fiduciary Net Assets	38
Component Unit Financial Statements:	
Combining Statement of Net Assets	39
Combining Statement of Activities.....	40
Notes to the Financial Statements	41-75

CITY OF KALAMAZOO, MICHIGAN

Comprehensive Annual Financial Report

For the Fiscal Year Ended December 31, 2006

TABLE OF CONTENTS

	<u>PAGE</u>
GASB Required Supplementary Information:	
Employees' Retirement System – Schedule of Funding Progress and Employer Contributions	76
Combining and Individual Fund Financial Statements and Schedules:	
Combining Balance Sheet – Nonmajor Governmental Funds	77
Combining Statement of Revenue, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	78
Fund Descriptions – Nonmajor Special Revenue Funds	79
Combining Balance Sheet – Nonmajor Special Revenue Funds	80
Combining Statement of Revenue, Expenditures and Changes in Fund Balances – Nonmajor Special Revenue Funds	81
Schedule of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual – Major Streets Fund	82
Schedule of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual – Local Streets Fund	83
Schedule of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual – Cemeteries Fund	84
Schedule of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual – Grants and Donations Fund	85
Schedule of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual – Economic Development Programs Fund	86
Schedule of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual – Drug Enforcement Fund	87
Fund Descriptions – Nonmajor Debt Service Funds	88
Combining Balance Sheet – Nonmajor Debt Service Funds	89
Combining Statement of Revenue, Expenditures and Changes in Fund Balances – Nonmajor Debt Service Funds	90
Fund Descriptions – Nonmajor Capital Projects Funds	91
Combining Balance Sheet – Nonmajor Capital Projects Funds	92
Combining Statement of Revenue, Expenditures and Changes in Fund Balances – Nonmajor Capital Projects Funds	93
Fund Descriptions – Nonmajor Permanent Funds	94
Combining Balance Sheet – Nonmajor Permanent Funds	95
Combining Statement of Revenue, Expenditures and Changes in Fund Balances – Nonmajor Permanent Funds	96
Fund Descriptions – Internal Service Funds	97
Combining Statement of Net Assets – Internal Service Funds	98
Combining Statement of Revenue, Expenses and Changes in Fund Net Assets – Internal Service Funds	99
Combining Statement of Cash Flows – Internal Service Funds	100-101
Fund Descriptions – Agency Fund	102
Statement of Changes in Assets and Liabilities – Agency Fund	103

CITY OF KALAMAZOO, MICHIGAN

Comprehensive Annual Financial Report

For the Fiscal Year Ended December 31, 2006

TABLE OF CONTENTS

	<u>PAGE</u>
Component Unit Fund Financial Statements:	
Downtown Development Authority:	
Statement of Net Assets/Governmental Fund Balance Sheet	104
Reconciliation of Fund Balance of the Governmental Fund to Net Assets	105
Statement of Activities/Governmental Fund Revenue, Expenditures	
and Changes in Fund Balance	106
Reconciliation of Governmental Fund Revenue, Expenditures, and	
Changes in Fund Balances to Changes in Net Assets	107
Economic Development Corporation:	
Statement of Net Assets/Governmental Fund Balance Sheet	108
Reconciliation of Fund Balance of the Governmental Fund to Net Assets	109
Statement of Activities/Governmental Fund Revenue, Expenditures	
and Changes in Fund Balance	110
Brownfield Redevelopment Authority:	
Statement of Net Assets/Governmental Fund Balance Sheet	111
Reconciliation of Fund Balance of the Governmental Fund to Net Assets	112
Statement of Activities/Governmental Fund Revenue, Expenditures	
and Changes in Fund Balance	113
Reconciliation of Governmental Fund Revenue, Expenditures, and	
Changes in Fund Balance to Changes in Net Assets.....	114
Local Development Finance Authority:	
Statement of Net Assets/Governmental Fund Balance Sheet	115
Reconciliation of Fund Balance of the Governmental Fund to Net Assets	116
Statement of Activities/Governmental Fund Revenue, Expenditures	
and Changes in Fund Balance	117
Reconciliation of Governmental Fund Revenue, Expenditures, and	
Changes in Fund Balance to Changes in Net Assets.....	118
Metro Transit System:	
Statement of Net Assets	119
Reconciliation of Fund Net Assets of the Enterprise Fund to Net Assets	120
Statement of Activities and Enterprise Fund Revenue, Expenses	
and Changes in Fund Net Assets.....	121
Reconciliation of Enterprise Fund Revenue, Expenses, and	
Changes in Fund Net Assets to the Statement of Activities.....	122
 STATISTICAL SECTION	 123-175

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OFFICE OF THE CITY MANAGER

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June 28, 2007

To the Honorable Mayor, City Commission, and Citizens of the City of Kalamazoo:

State law requires that every general-purpose local government publish within six months of the close of each fiscal year a complete set of audited financial statements. This report is published to fulfill the City of Kalamazoo's requirement for the fiscal year ended December 31, 2006.

This financial report consists of management's representations concerning the finances of the City of Kalamazoo. Therefore, management assumes full responsibility for the completeness and reliability of the information contained in this report. To provide a reasonable basis for making these representations, City management has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Kalamazoo's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material aspects.

Rehmann Robson, Certified Public Accounts, have issued an unqualified opinion on the City of Kalamazoo's financial statements for the year ended December 31, 2006. The independent auditor's report is located at the front of the financial sections of this report.

The independent audit of the financial statements of the City was part of a broader, federally-mandated "Single Audit" in conformity with the provisions of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the separately issued City's Single Audit Report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis ("MD&A"). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Kalamazoo, incorporated in 1884, is located between Chicago and Detroit in the southwest corner of Michigan and encompasses an area of approximately 26 square miles. The current population of the City is approximately 77,145. The City, also the county seat, is home to Western Michigan University, a state-designated Research I university, as well as Kalamazoo College, a private liberal arts college, and Kalamazoo Valley Community College. As a municipality of the State of Michigan, the City of Kalamazoo is empowered to levy a property tax on both real and personal property located within its boundaries.

The City of Kalamazoo has operated under the commission-manager form of government since 1918. As required by the City Charter, the seven member commission is elected at-large on a non-partisan basis to serve two-year terms of office. Policymaking and legislative authority are vested in an elected commission consisting of seven members, all serving part-time. The Commission member, who receives the highest number of votes becomes the Mayor, serves as the executive head of the Commission. The Commission member receiving the second highest number of votes becomes the Vice Mayor and performs the duties of the Mayor in his or her absence. The City Manager is the Chief Administrative Office of the City and is appointed by the Commission to serve at its pleasure. With the exception of the City's Assessor, Attorney, Clerk and Internal Auditor who are also appointed by the Commission, the City Manager is responsible for administering the policies and ordinances of the City Commission, for appointing the department heads of the City's various departments and overseeing day-to-day operations of the City.

City Services

The City of Kalamazoo provides a full range of traditional government services, including police and fire protection; economic and community development activities; recreational and cultural activities and the construction and maintenance of streets and other infrastructure. Unique for a City of its size, the City operates its police and fire services under the public safety concept, in which members of the department are cross-trained to perform both police and fire services. In addition, the City of Kalamazoo operates water and wastewater systems. Both systems are regional in character, serving a large portion of the county outside of the City of Kalamazoo's corporate limits, and both are financially self-supporting. Both Utilities have significant excess capacity compared to current usage.

The City has three tax-increment-financed districts within its boundaries: a Downtown Development Authority for its downtown area, a Brownfield Redevelopment Authority to redevelop blighted properties within its boundaries, and a Local Development Financing Authority for a business and technology research park. A tax-increment financing ("TIF") district captures incremental increases in property tax revenues and reinvests them within that district. In addition to these TIF districts, a portion of the City has been designated as a Renaissance Zone by the State of Michigan, which allows residents and businesses within that zone to enjoy exemption from property taxes and certain state taxes. These districts are discretely presented component units of the City.

Citizens are also served by the City's Metro Transit System, a discretely presented component unit of the City of Kalamazoo, which provides mass-transportation services throughout the City, including Western Michigan University, and into outlying areas.

In addition, the City of Kalamazoo has four other legally separate component units, the Economic Development Corporation, Hospital Finance Authority, Kalamazoo Municipal Golf Association and the Kalamazoo Building Authority, entities for which the government is considered to be financially accountable. Additional information on all seven of these legally separate entities can be found in the notes to the financial statements.

Budgeting Control

The annual budget serves as the foundation for the City of Kalamazoo's financial planning and control. The City Charter requires that the City Manager submit to the City Commission an estimate of revenues and contemplated expenditures for the following fiscal year by December 1. An interim appropriation resolution is passed by January 1 to continue normal operations and by February 1 of each year the City Commission passes an annual appropriation resolution approving the estimated expenditures. The budget is adopted at the departmental level; Department heads may transfer resources within a department as they see fit. Transfers between departments, however, need special approval from the commission. Legislative actions by the City Commission to issue bonds, accept grants and authorize special assessment projects are considered authority to expend funds for those purposes. Unexpended capital project appropriations automatically carry forward to the next fiscal year. All other appropriations lapse at year-end, except for those specifically approved to be carried forward by the City Commission.

The City Commission adopts budgets for the General Fund and all special revenue funds, as required by Michigan statute. The Commission also adopts budgets for capital projects, enterprise funds, and the administrative portion of the pension fund, although not required by the State of Michigan.

The budget has been approved in accordance with GAAP for all governmental funds with the exception of property taxes, as the State of Michigan property tax calendar (which begins July 1) differs from the City's fiscal year (which begins January 1). The City Charter allows property taxpayers to pay their taxes in twelve (12) monthly installments. Property taxes are budgeted in the year levied, even though they are not fully available to finance operations in the current year. Because GAAP requires the recognition of only those property tax collections made during the fiscal year with a sixty-day accrual period, the City prepares dual statements for its General and Solid Waste funds, one in conformity with GAAP, and one on a "Non-GAAP, budgetary basis". Further discussion on this difference and its implication is provided in the Management's Discussion and Analysis and the note disclosures.

Cash Management Policies and Practices

The City's investments, managed by the City Treasurer, are guided by an investment policy adopted by the City Commission in compliance with statutory requirements for municipal investments. Due to their long-term nature, funds for the City's pension fund and Cemetery Perpetual Care fund maintain separate investment portfolios, as allowed by State law, and are managed by an Investment Committee appointed by the City Commission.

Risk Management

The City is predominantly self-insured for general liability, workers' compensation, life and health insurance. The City's policy is to recognize the cost of these claims at the time the liability is incurred in the Insurance and Benefits Fund. The estimated uninsured claim liability (both reported and incurred but not reported) has been recorded as a liability in the Insurance and Benefits Fund. Additional information on risk management can be found in the note disclosures.

Pension and Other Post-employment Benefits

The City sponsors a single-employer defined benefit pension plan for its employees. A five-member Board of Trustees is empowered to administer the system. A six-member Investment Committee appointed by the City Commission is responsible for the investment of the system's assets.

As of December 31, 2006, the City of Kalamazoo Employee Retirement System had 1,534 members. Each year, an independent actuary calculates the amount of the annual contribution that the City must make to ensure that the plan will be able to fully meet its obligations to retirees and beneficiaries on a timely basis. Due to the Plan's over-funded status, no contribution was required of the City for fiscal year 2006. The funded status, defined as the percentage of actuarial assets to actuarial liabilities, increased from 143.5% in 2005 to 148.4% as of December 31, 2006, due to favorable asset experience.

The City also provides post-employment health care benefits for certain retirees and their beneficiaries. These benefits are financed on a pay-as-you go basis. Current GAAP does not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits. Additional information on the City's pension arrangements and post-employment benefits can be found in the notes to the financial statements.

SEC Disclosure under Rule 15c2-12

Securities and Exchange Commission (SEC) Rule 15c2-12 requires that issuers of municipal securities undertake to provide certain annual financial information to various information repositories. In recognition that a CAFR is an appropriate disclosure document for providing information useful to existing and potential investors in the secondary market, and in order to meet our obligation to provide periodic disclosure for the secondary market, as required by Rule 15c2-12, the City of Kalamazoo has elected to include in this CAFR tables providing quantitative data on those activities which require such disclosure. Those tables can be found in the statistical section of the CAFR.

Local Economy

Kalamazoo has a diverse regional economy, anchored by major employers in the pharmaceutical (Pfizer), health care product (Stryker Corp.), health services (Bronson and Borgess regional hospitals), banking (National City), and higher education (Western Michigan University, Kalamazoo College, and Kalamazoo Valley Community College) industries. Kalamazoo's workforce is as diverse as its economy, ranging from those skilled in manufacturing to research scientists. At the same time, enrollment in local universities and colleges exceeds 45,000 students, creating a base of potential employees that is highly attractive to business and industry.

A long-time cultural and commercial center for the region, Kalamazoo has made tremendous strides over the past decade to revitalize its central business district, and downtown Kalamazoo has now become a dining and entertainment hub, with much of the new activity occurring in restored historic buildings. The Radisson Plaza Hotel, located in the heart of downtown, celebrated the completion of its \$33 million renovation, including a new façade, the addition of 71 rooms (including suites and long-term stay rooms), a new restaurant, and several upscale shops. Other major projects underway include the \$4.6 million renovation of the United Electric Building; the public-private \$27 million multi-screen movie theater, parking ramp and retail/residential project at 141 East South Street; continued progress on Bronson Healthcare Group's campus master plan and several smaller projects resulting in preservation of historic structures and creation of residential loft space. The Arcadia Commons project, the new \$180 million Bronson Hospital campus, improvements to the downtown mall, the \$33 million expansion of the Kalamazoo Gazette, the \$3.3 million project to renovate 2 buildings in the downtown into new entertainment and restaurant venues and projects discussed above account for more than \$450 million in total new investment downtown over the past 10 years.

In 2005, a group of anonymous citizens interested in the economic strength and quality of life in the City of Kalamazoo made a tremendous contribution on behalf of Kalamazoo Public School System students. All students who graduate from Kalamazoo Public Schools, are residing in the district, and have been students four years or more will be given funding for college tuition and mandatory fees. The amount of available dollars depends on years of residency and the number of grades attended in KPS, up to 100% of tuition and mandatory fees. The funds will be available to use at any public university or community college in the State of Michigan. The scholarships that now await graduates of Kalamazoo Public Schools go a long way toward making the school-improvement goal a done deal and in the process, could launch an unprecedented boon to business and economic development.

The City has completed plans for redevelopment along the Kalamazoo River on the eastern edge of downtown using \$2.9 million in state grant money for land acquisition and site preparation work leading to higher and better land uses, such as townhouses, unique commercial venues, and public amenities designed to draw people to the waterfront.

Western Michigan University's \$72.5 million College of Engineering opened its doors in 2003, and the adjoining Business, Technology and Research Park (BTR) saw new investment from life science, advanced engineering, and high technology companies. In its first five years of existence, 33 private-sector businesses have been attracted to the BTR Park: 18 life-science companies, 7 advanced engineering firms and 1 information technology company. Currently, 20 these businesses have laboratory and office space in the Southwest Michigan Innovation Center (SMIC). In addition, 103 acres of the 137-acre BTR site have been developed, are under construction, or are under option.

Pfizer, the area's largest employer, has reduced staff at its research and chemical storage facilities in the City and company officials have demolished approximately \$24 million of its downtown campus buildings. In addition, approximately \$15 million in new investment in the downtown has created an attractive, useful, and secure campus providing maximum flexibility for future growth.

The City continues to make progress in the area of affordable housing. The City also developed a 10-point affordable housing strategy used as the foundation for a countywide initiative.

The City of Kalamazoo initiated the creation of the countywide transit authority, which marks the first efforts to improving the transportation system throughout the County. Additionally, we completed \$13 million of facility renovations in August of 2006 to rehabilitate the historical Intermodal Transportation Center (bus/train station) and construct new transfer station for Metro Transit and inter-city buses.

Long-term financial planning

The City of Kalamazoo believes long-term financial planning has been and will continue to be a vital component to ensure the City's fiscal health. The City Commission identified six strategic focus areas which focus on: Economic Vitality, Neighborhood Development, Environmental Stewardship, Community Building, Responsive and Responsible Government, and Fiscal Stewardship.

Fiscal year 2007 is expected to be another difficult year as state-shared revenues and other revenues continue to lag behind expenditures. This situation is not unique to our community. A number of Michigan cities – especially those in urban centers – have been reducing government services in recent years.

The City's tax growth is limited by Proposal A, which caps growth in taxable value. This capping tax base growth has a negative affect on most communities in Michigan, but is a particular hardship for central city communities like Kalamazoo due to the built out nature of our community. Combined with a slow-growing economy, Proposal A hinders the ability of local government to address new service needs in the community without impacting basic municipal services.

In 2006, the City developed a five-year Fiscal Plan (The Plan) utilizing a methodology designed to identify and embrace new realities, strategies, and opportunities. The Plan embodies achievement of balanced annual budgets, establishment and maintenance of strategic prudent reserve funds, responsible reinvestment in capital infrastructure, and efficient use of resources. Expenditures will be primarily reduced through comprehensive analysis for cost containment, establishment of reserves and use of alternative funding sources, and non-head count efficiency improvements. Revenue will be increased through new or alternative funding.

Awards and Acknowledgements

The Government Finance Officer's Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Kalamazoo for its comprehensive annual financial report for the fiscal year ended December 31, 2005. This was the eleventh consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, a government had to publish an easily readable and efficiently organized comprehensive annual finance report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current report continues to meet the Certificate of Achievement Program's requirements and we are submitting in to the GFOA to determine its eligibility for another certificate.

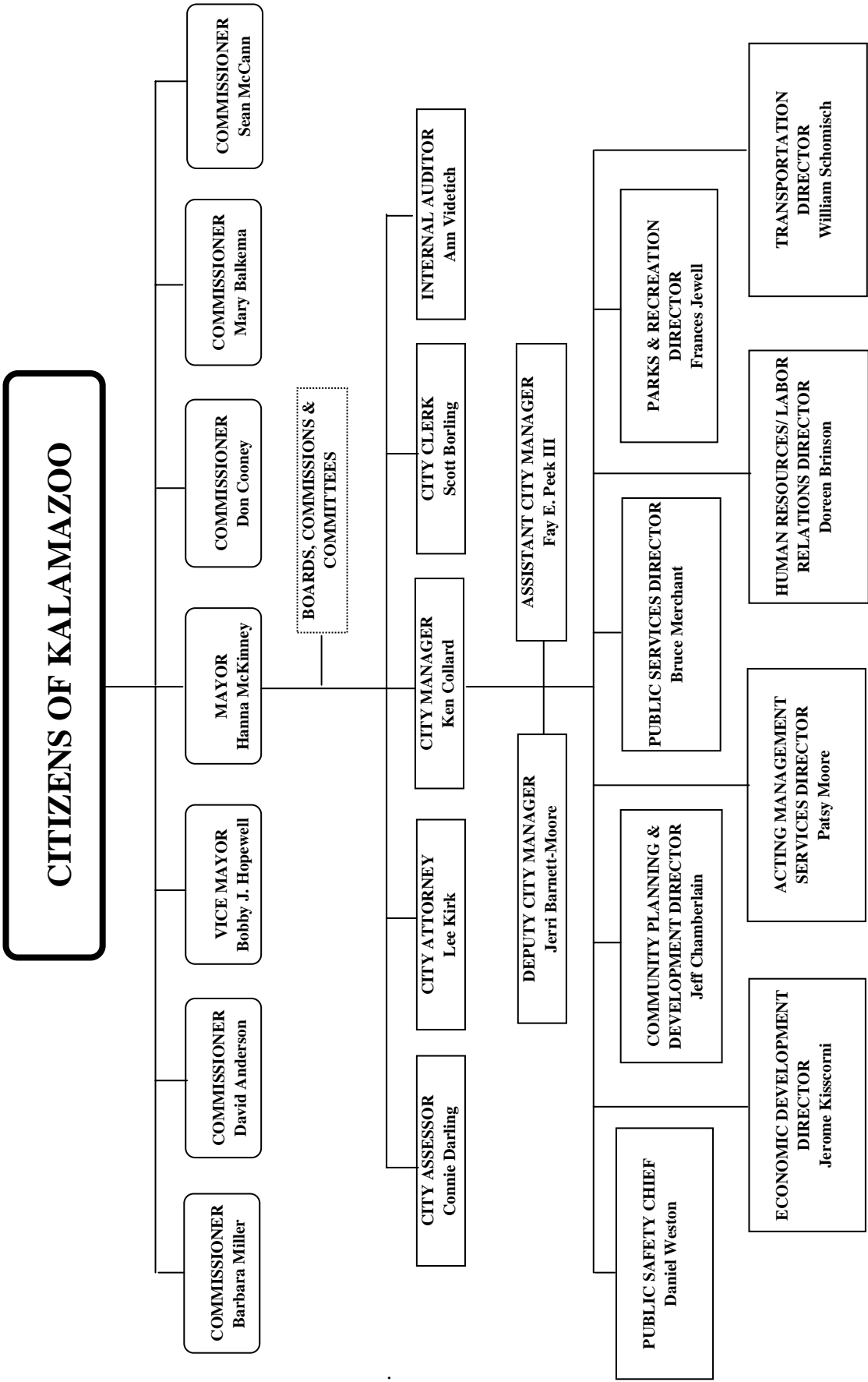
The preparation of this report would not have been possible without the efficient and dedicated service of the entire staff of the City of Kalamazoo. We want to thank all involved in the financial monitoring and reporting of City activities, especially the Budget & Accounting Division and specifically Ms. Cathy Lawson, Budget & Accounting Manager. Credit also must be given to the mayor and the governing commission for their unfailing support to maintaining the highest standards of professionalism in the management of the City of Kalamazoo's finances.

Respectfully submitted,



Kenneth P. Collard
City Manager

CITY OF KALAMAZOO ORGANIZATION CHART



CITY OF KALAMAZOO, MICHIGAN

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

City Commission

**Hannah J. McKinney, Mayor
Bobby J. Hopewell, Vice Mayor**

**Don Cooney
David Anderson
Mary Balkema
Barbara Hamilton Miller
Sean McCann**

CITY ADMINISTRATION

City Manager: Kenneth P. Collard, ICMA-CM, P.E.

Jerome Kisscorni, Acting Executive Director of Economic Development Corporation
Jerri Barnett-Moore, Assistant City Manager
Doreen Brinson, Human Resources/Labor Relations Director
Daniel Weston, Chief of Public Safety
Patsy Moore, Budget and Accounting Director/Comptroller
William Schomisch, Transportation Director
Frances Jewell, Parks & Recreation Director
Duane Hettinger, Information Technology Director
Patsy Moore, Acting Management Services Director/Chief Financial Officer
Bruce Merchant, Public Services Director

MANAGEMENT SERVICES DEPARTMENT

Patsy Moore, Budget & Accounting Director/
Comptroller
Wade Carlson, City Treasurer
Constance Darling, City Assessor

CITY COMMISSION APPOINTEES

Lee Kirk, City Attorney
Scott Borling, City Clerk
Ann Videtich, Internal Auditor
Constance Darling, City Assessor
Nick Lam, Purchasing Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Kalamazoo
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

 an independent member of
BAKER TILLY
INTERNATIONAL

INDEPENDENT AUDITORS' REPORT

June 28, 2007

Honorable Mayor and
Members of the City Commission
City of Kalamazoo, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the **City of Kalamazoo, Michigan**, as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Kalamazoo's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Downtown Development Authority and the Kalamazoo Municipal Golf Association, which represent 13.3% and 4.1% of the assets and 24.2% and 5.3% of the revenues of the aggregate discretely presented component units, respectively. Those financial statements were audited by other auditors whose reports were furnished to us, and our opinion, insofar as it relates to the amounts included for the Downtown Development Authority and the Kalamazoo Municipal Golf Association, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Kalamazoo Municipal Golf Association were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kalamazoo, Michigan, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons for the General Fund and major special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2007, on our consideration of the City of Kalamazoo, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, in a separately issued single audit report. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-20 and the historical pension supplementary information for the Employees Retirement System listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and do not express opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Kalamazoo's basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

Management's Discussion and Analysis

As management of the City of Kalamazoo, Michigan, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-v of this report.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$333,503,345 (*net assets*). Of this amount, \$31,636,003 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$8,800,375 or 2.71%. This net increase was a combination of a \$7.3 million increase in governmental activities net assets and a \$1.5 million increase in business-type activity net assets.
- The City's total bonded debt increased by \$3,390,000 during the current fiscal year; two General Obligation debt bonds and one Water System Supply Revenue bond and defeasance of debt net the scheduled repayment of bonded debt.
- As of the close of the current fiscal year, the City's *governmental funds* reported combined ending fund balances of \$30,096,822, an increase of \$3,387,070 in comparison of the prior year. Approximately 33% of the combined fund balances, or \$9,931,721, was available for spending at the government's discretion (*"unreserved fund balance"*). However of that amount, \$5,980,948 was attributable to special revenue funds, debt service funds, capital projects funds and permanent funds. Fund balances in those funds must be used for their intended purposes.
- The General Fund *non-GAAP, budgetary* (see explanation under the General Fund financial analysis) unreserved, undesignated fund balance for the general fund was \$8,354,647, or 15.8% of total general fund revenues and other financing sources. For the purpose of the City's policy, amounts designated as budgeted for use in the next year, \$1,856,812 for 2007 is added to the unreserved, undesignated fund balance, resulting in a fund balance of \$10,211,459, or 19.3%. The General Fund *GAAP* unreserved, undesignated fund balance for the general fund was \$2,771,305 or 5.2% of total general fund revenues and other financing sources.
- Combined business-type activities net assets increased \$1,510,058 in 2006. This increase included \$2.8 million increase to net assets in the Water Fund, due mainly to \$3.5 million capital contributions received (revenues for extensions and system improvements from an outside party) and a \$2.3 million operating loss in the Wastewater fund.

Management's Discussion and Analysis

Overview and Analysis of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Kalamazoo's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation and sick leave)

Both the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, highways and streets, parks and recreation, economic development and community development. The business-type activities of the City include wastewater, water and other enterprise operations.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also legally separate entities for which the City is financially accountable. Financial information for these *component units* are reported separately from the financial information presented for the primary government itself. The Building Authority, although also legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 21-22 of this report.

Management's Discussion and Analysis

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, use fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains nineteen (19) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the City's general funds; solid waste, neighborhood and community development special revenue funds; and the Building authority debt service fund. Data from the other fifteen (15) governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general, special revenue and capital projects. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 23-30 of this report.

Management's Discussion and Analysis

Proprietary funds. The City maintains two different types of proprietary funds, *enterprise funds* and *internal service funds*. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its wastewater, water, and farmer's market. *Internal service funds* are an accounting device used to accumulate and allocate cost internally among the City's various functions. The City uses internal service funds to account for its equipment maintenance, self-insurance, engineering services, city-wide maintenance, and printing/mail services. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the wastewater and water systems, which are considered to be major funds of the City. Conversely, all of the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 31-36 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary funds financial statements can be found on pages 37-38 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 41-75 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to a schedule concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 76 of this report.

Management's Discussion and Analysis

The combining statements referred to earlier in connection with non major funds are presented immediately following the required supplementary information. Combining and individual fund financial statements and schedules can be found on pages 77-122 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Kalamazoo, assets exceeded liabilities by \$333,503,345 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets, \$261,491,151 or 78.4 percent, reflects its investment in capital assets (e.g. land, land improvements, buildings, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets, \$40,376,191 or 12.1 percent, represents resources that are subject to external restrictions on how they may be used. Restricted net assets include amounts set aside for endowments, debt service, debt-financed projects, long-term advances, and externally mandated commitments. The remaining balance of *unreserved net assets*, \$31,636,003 or 9.5 percent may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Management's Discussion and Analysis

City of Kalamazoo's Net Assets

	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 65,112,763	\$ 62,608,201	\$ 30,470,223	\$ 31,900,325	\$ 95,582,986	\$ 94,508,526
Capital assets, net	170,061,365	164,317,599	175,817,594	170,911,106	345,878,959	335,228,705
Total assets	<u>235,174,128</u>	<u>226,925,800</u>	<u>206,287,817</u>	<u>202,811,431</u>	<u>441,461,945</u>	<u>429,737,231</u>
Long-term liabilities outstanding	72,391,833	70,003,278	25,765,201	24,569,774	98,157,034	94,573,052
Other liabilities	6,259,575	7,690,119	3,541,991	2,771,090	9,801,566	10,461,209
Total liabilities	<u>78,651,408</u>	<u>77,693,397</u>	<u>29,307,192</u>	<u>27,340,864</u>	<u>107,958,600</u>	<u>105,034,261</u>
Net assets:						
Invested in capital assets, net						
of related debt	109,408,557	105,799,049	152,082,594	148,221,106	261,491,151	254,020,155
Restricted	28,757,898	30,343,486	11,618,293	14,823,500	40,376,191	45,166,986
Unrestricted	<u>18,356,265</u>	<u>13,089,868</u>	<u>13,279,738</u>	<u>12,425,961</u>	<u>31,636,003</u>	<u>25,515,829</u>
Total net assets	<u>\$ 156,522,720</u>	<u>\$ 149,232,403</u>	<u>\$ 176,980,625</u>	<u>\$ 175,470,567</u>	<u>\$ 333,503,345</u>	<u>\$ 324,702,970</u>

The government's net assets increased \$8,800,375 or 2.71% during the current fiscal year as compared to an increase of \$9,823,830 for the prior year. This net increase was a combination of a \$7.3 million increase in governmental activities net assets and a \$1.5 million increase in business-type activity net assets.

Management's Discussion and Analysis

City of Kalamazoo's Changes in Net Assets

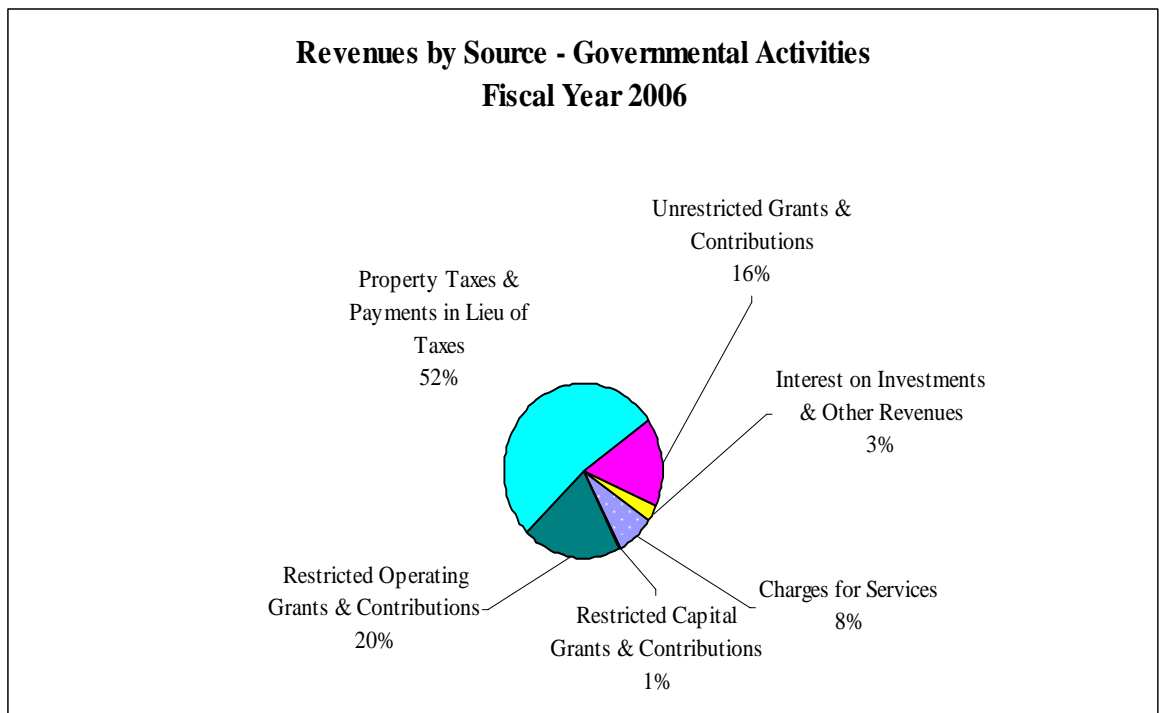
	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue:						
Program revenue:						
Charges for services	\$ 5,240,627	\$ 6,496,443	\$ 28,975,685	\$ 27,371,600	\$ 34,216,312	\$ 33,868,043
Operating grants and contributions	13,439,433	18,002,937	1,010,733	1,422,097	14,450,166	19,425,034
Capital grants and contributions	393,565	479,577	3,618,003	6,316,121	4,011,568	6,795,698
General revenue:						
Property taxes	35,148,859	33,066,650	-	-	35,148,859	33,066,650
Grants and contributions not restricted to specific programs	10,967,559	10,461,886	8,645	(8,646)	10,976,204	10,453,240
Other	1,802,340	1,173,843	183,650	21,168	1,985,990	1,195,011
Total revenue	66,992,383	69,681,336	33,796,716	35,122,340	100,789,099	104,803,676
Expenses:						
General government	6,491,807	5,307,982	-	-	6,491,807	5,307,982
Public safety	29,898,894	30,897,982	-	-	29,898,894	30,897,982
Economic Development	527,345	902,612	-	-	527,345	902,612
Community Dev and Planning	5,051,199	6,193,305	-	-	5,051,199	6,193,305
Parks	894,120	905,279	-	-	894,120	905,279
Recreation	1,855,689	1,583,015	-	-	1,855,689	1,583,015
Public works	5,255,159	5,532,502	-	-	5,255,159	5,532,502
Streets	6,636,399	7,085,322	-	-	6,636,399	7,085,322
Interest on long-term debt	3,091,454	3,119,829	-	-	3,091,454	3,119,829
Wastewater	-	-	20,370,767	20,770,198	20,370,767	20,770,198
Water	-	-	11,875,242	11,392,060	11,875,242	11,392,060
Other	0	-	40,649	1,119,540	40,649	1,119,540
Total expenses	59,702,066	61,527,828	32,286,658	33,281,798	91,988,724	94,809,626
Increase in net assets before transfers	7,290,317	8,153,508	1,510,058	1,840,542	8,800,375	9,994,050
Transfers	-	-	-	-	-	-
Change in net assets	7,290,317	8,153,508	1,510,058	1,840,542	8,800,375	9,994,050
Net assets - beginning, as restated	149,232,403	141,078,895	175,470,567	173,630,025	324,702,970	314,708,920
Net assets - end of year	\$ 156,522,720	\$ 149,232,403	\$ 176,980,625	\$ 175,470,567	\$ 333,503,345	\$ 324,702,970

Management's Discussion and Analysis

Governmental activities. Governmental activities increased the City's net assets \$7.3 million, accounting for 82.8 percent of the total growth in the government's net assets. Key elements of this increase are as follows:

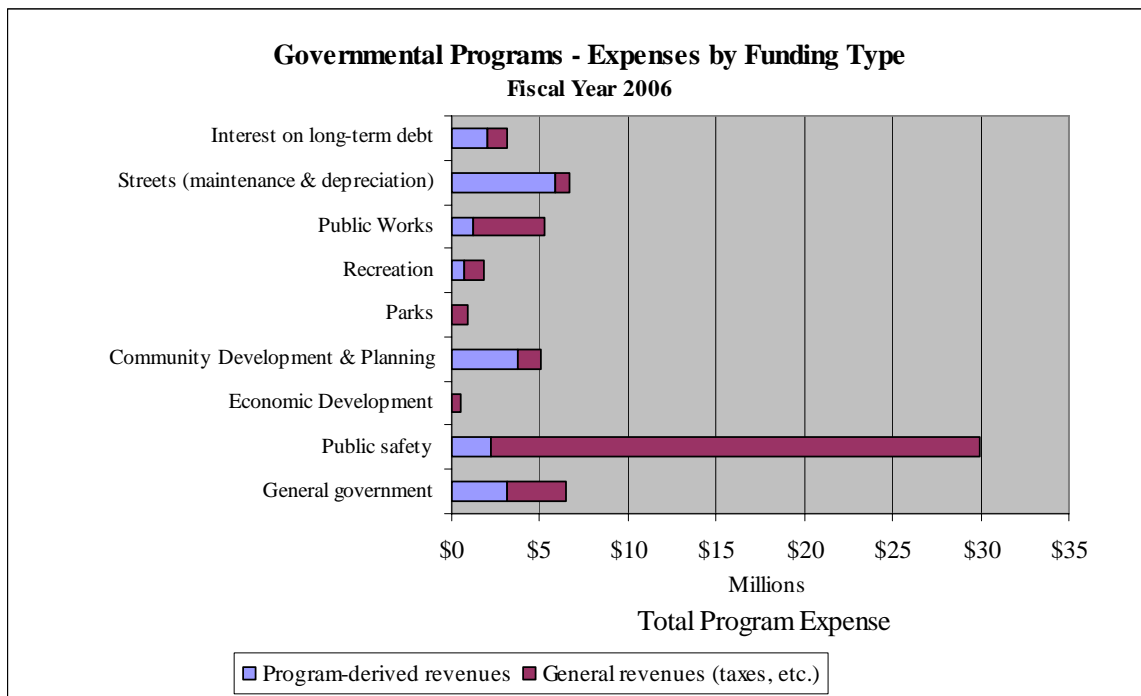
- Property taxes increased by \$1,875,872 or 6.2%, on a non-GAAP, budgetary basis from 2005, primarily as a result of personal property tax audits resulting in increased collections.
- Interest earnings increased by \$500,940 from favorable investment activity.

While some revenue for governmental activities is derived from charges specific to programs, the majority of programs are generally subsidized by tax revenues and/or by intergovernmental aid. In total, for fiscal year 2006, 71% of governmental program expenses were funded by a combination of property taxes, revenue sharing from the State of Michigan, unrestricted grants and contributions, interest earnings, and reserves as depicted on the following chart.



Management's Discussion and Analysis

The following chart depicts the total expenses for each governmental program for the City of Kalamazoo and the degree to which they are self-supporting and/or subsidized.

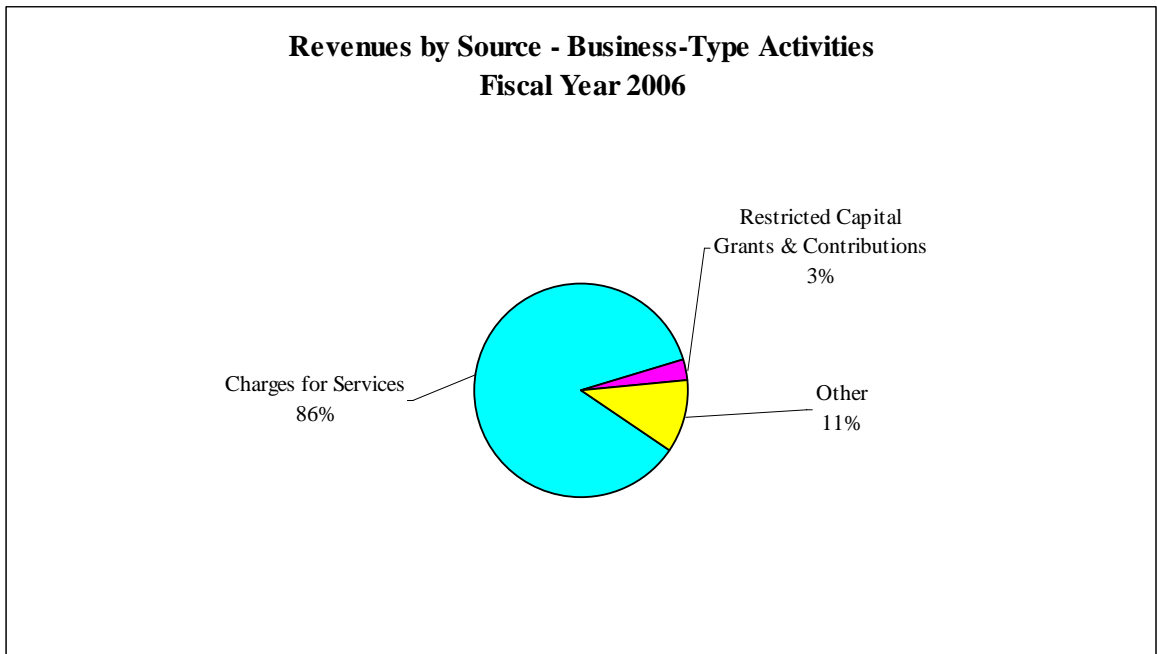


Business-type activities. Business-type activities increase the City's net assets by \$1.5 million, accounting for 17.2 percent of the total growth in the government's net assets. The key element of this increase follows:

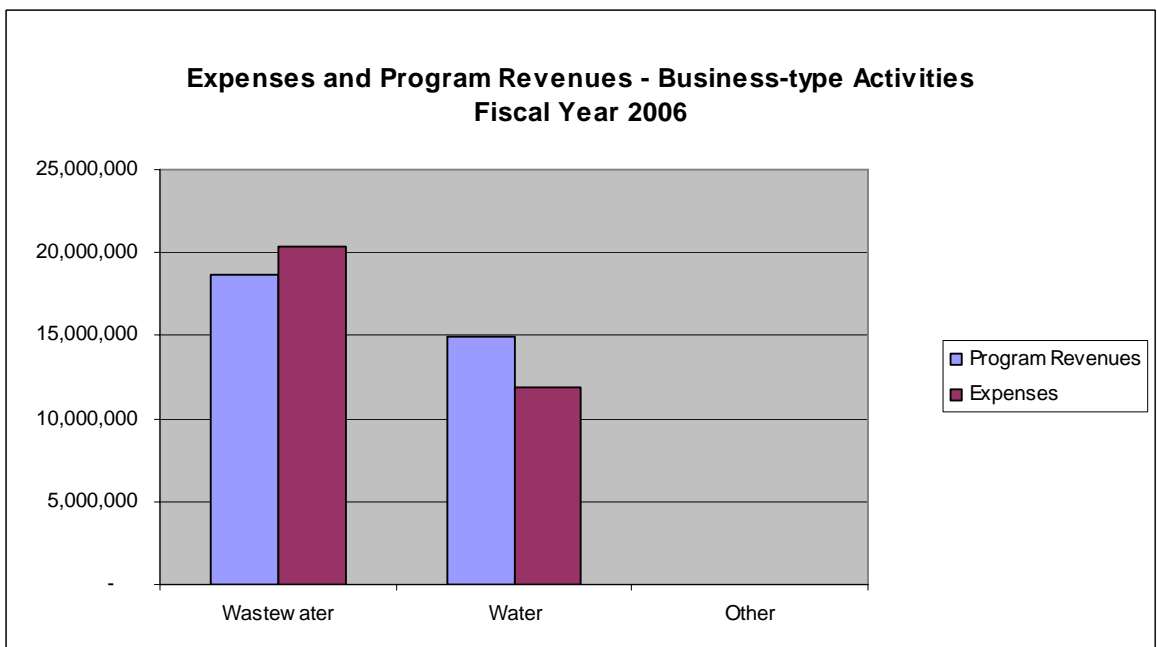
- Capital contributions emerged as a major revenue source for the Water fund during the current fiscal year, producing \$3.5 million in revenue.
- Interest earnings increased by approximately \$512,000 from favorable investment activity
- Decrease in various charges for services in the Water and Wastewater System.
- Inflationary increases in expenditures.

Management's Discussion and Analysis

In contrast to governmental activities, business-type activities are funded through user fees and charges. Business-type activities of the City include wastewater, water, and a farmer's market. In 2006, 86% of business-type activity revenues were derived from charges for services, 3% were funded through capital grants and contributions, with the remaining 11% attributable to other revenue sources, as depicted in the following chart:



The following chart depicts the total expenses for each business-type activity for the City of Kalamazoo and the degree to which they are self-supporting and/or subsidized.



Management's Discussion and Analysis

Financial Analysis of the Government's Funds.

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$30,096,822, an increase of \$3,387,070 in comparison with the prior year. Approximately 33% of this total amount (\$9,931,721) constitutes *unreserved, undesignated fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved or designated* to indicate that it is not available for new spending because it has already been committed 1) for encumbrances, inventories, and prepaid expenditures, 2) for advances to other funds and component units, 3) to generate income to pay for the municipal cemetery and future recreation programs, and 4) designated for use for next year's expenditures.

General Fund. The general fund is the chief operating fund of the City of Kalamazoo. Because of the City's property tax installment payment option provided for in the City charter, some property tax collections, \$5,583,342 for 2006, are collected after the time period allowed for revenue recognition by Generally Accepted Accounting Principals (GAAP). As a result the City reports two fund balances in the fund financial statements, a "GAAP" fund balance and a "non-GAAP, budgetary basis" fund balance.

The City has a formal unreserved, undesignated fund balance policy target, using the *non-GAAP, budgetary* fund balance, of 13-15% of total general fund revenues and other financing sources. At the end of the current fiscal year, the non-GAAP, *budgetary unreserved, undesignated fund balance* for the general fund was \$8,354,647, or 15.8% of total general fund revenues and other financing sources. For the purpose of the City's policy, amounts designated as budgeted for use in the next year, \$1,856,812 for 2007 is added to the unreserved, undesignated fund balance, resulting in a fund balance of \$10,211,459, or 19.3%.

The GAAP unreserved, undesignated fund balance for the general fund was \$2,771,305 or 5.2% of total general fund revenues and other financing sources. This was a \$1.3 million increase from 2005 and resulted from a combination of a planned increase in the non-GAAP, budgetary fund balance; a \$261 thousand increase in property tax deferrals, which results in less property tax revenues being recognized; and a \$1.8 million designation of fund balance for operational uses in 2007.

Management's Discussion and Analysis

The fund experienced a \$3,059,117 *non-GAAP, budgetary* fund balance increase during 2006. However, the increase was actually \$5,299,775, since fund balance was budgeted to decrease by \$2.2 million in 2006. Revenues and other financing sources came in \$2,799,038 more than the amended budget. Expenditures and other financing uses were \$2,500,737 below budget, resulting in the favorable variance. However, \$2,783,383 of the positive expenditure and other financing source variance is being carried forward for spending in 2007 (recorded as designations of fund balance on the balance sheet). The General fund experienced an overall positive variance of \$5,299,775 between final amended budgeted expenditures and actual final results on a *non-GAAP budgetary basis*.

Solid Waste Special Revenue Fund. The Solid Waste fund is used to account for funds provided by a special tax millage for the collection and removal of solid waste.

Like the General Fund, the Solid Waste fund balance is reported using two bases: the non-GAAP, budgetary basis and the GAAP basis. The fund's *non-GAAP, budgetary* unreserved, undesignated fund balance increased \$546,020 during the course of 2006 to \$1,395,323. The GAAP basis unreserved, undesignated fund balance is \$893,363 (the entire fund balance is being carried forward for use in 2007). The increase in the non-GAAP, budgetary fund balance was attributable mainly to inflationary increases in property tax revenues in 2006 and decreased expenditures.

Neighborhood and Community Development Special Revenue Fund. This fund is used to account for a variety of federal award programs, most notably the City's Community Development Block, HOME, and Emergency Shelter Grants.

During 2006, the fund balance increased \$432,533 to \$765,587, which was mainly due to the change in classification of current properties held for resale.

Building Authority Debt Service Fund. This debt service fund is used to account for the debt service activity of the Kalamazoo Building Authority, a blended component unit. Resources consist of the collection of lease payments by the Downtown Development Authority, as well as transfers from other funds for Building Authority-related debt repayment. While this fund generally operates on a cash-in, cash-out basis, it is designated as a major fund because of the relative size of assets and liabilities as compared to other funds.

During the year, the fund balance decreased \$155,981 to \$89,319. The fund balance is comprised of accumulated interest earnings and bond proceeds, which will be used to offset debt service payments in 2007.

Management's Discussion and Analysis

Other (Non-major) Governmental Funds. During the year, the combined fund balance for the City's non-major governmental funds decreased \$221,335 to \$22,193,030. The majority of the \$22.1 million fund balance was attributable to capital improvement projects funds (\$9.2 million), special revenue funds used for major and local streets (\$3 million), economic activities (\$3.3 million), and endowments held for recreational and cemetery perpetual care purposes (\$5.3 million). Because resources for these funds are, for the most part, restricted to specific purposes, their fund balances are not available for general government use.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Wastewater Fund. *Unrestricted* net assets (the amount available for future spending) of the City's Wastewater fund amounted to \$5,577,550 as of December 31, 2006. The fund had a decrease in total net assets for the year of \$1,833,040.

Contributing to the decrease in total net assets was an operating loss of \$2,369,231. An operating loss was anticipated for 2006; however, operational savings helped to reduce the anticipated loss. Overall revenues decreased by \$1.27 million however, the industrial contract surcharge revenue decreased by \$2.58 million as a result of operational changes of some of our major users. Additionally, there was a combined revenue decrease of \$328 thousand from the various other customers. The total decrease in revenue of \$2.9 million was offset by the true-up revenue of \$1.6 million booked in 2006. The true-up has been a requirement of the Wastewater Utility since 1999. This adjustment computes the difference between projected and actual cost of service for outside city customers. The results of the study completed in 2006 showed that an additional \$1.6 million should have been collected.

The City has a financial policy, which targets minimum levels for certain reserves in the Wastewater Fund. The Operating Reserve (working capital) should be at least 90 days of budgeted operation & maintenance expense; the Emergency Capital Reserve should be at least equal to the prior year's depreciation expense; and the Environmental Clean-Up Reserve should be equal to the estimated present value cost of known, quantifiable and probable clean-up liabilities. As of December 31, 2006, the balances in these reserves were at or above the minimum levels.

Water Fund. *Unrestricted* net assets (the amount available for future spending) of the City's Water fund amounted to \$5,665,789 as of December 31, 2006. The fund had an increase in total net assets for the year of \$2,885,006 and an increase in unrestricted net assets of \$67,205.

The increase in net assets is primarily attributable to \$3.5 million of capital contributions (revenues received for extensions and improvements to the water distribution system that are paid for by an outside party, such as a homeowner or developer) received in 2006. Because that amount was used to purchase capital assets, it increased the amount of net assets reported as *Invested in capital assets, net of related debt*, thereby resulting in an increase by that amount in *unrestricted net assets*.

Management's Discussion and Analysis

The Water Fund experienced an operating loss of \$107,215, due to inflationary increases in expenses.

The City has a financial policy, which targets minimum levels for certain reserves in the Water Fund. The Operating Reserve (working capital) should be at least 90 days of budgeted operation & maintenance expense. As of December 31, 2006, the Operating Reserves were at or above the minimum levels. The Emergency Capital Reserve is required to be at least equal to the prior year's depreciation expense. As of December 31, 2006, the balance was at the prior year's depreciation expense.

Other Enterprise Funds. During the year, the combined net assets for the City's non-major proprietary funds increased \$6,817 to \$132,976. The City Market (farmers' market) Fund represents the entire net asset balance, the unrestricted (amount not tied up in fixed assets) portion being \$42,549.

General Fund Budgetary Highlights

During the year, there was a \$1,116,637 increase in appropriations between the original and final amended general fund budget adopted by the City Commission. Following are the main components of the increase:

- Unspent budget appropriations in the amount of \$818,574 from 2005 under the City's budgetary policies were re-appropriated in 2006.
- Various operating budget appropriations of \$94,322.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of December 31, 2006, totaled \$345.8 million (net of accumulated depreciation). This investment in capital assets includes land; land improvements; buildings; water, wastewater, and storm sewer systems; vehicles and equipment; park facilities; roads; highways; and bridges. Net capital assets for governmental activities increased \$5.7 million, or 3.5%, while net business-type activity net assets increased \$4.9 million, or 2%, for business-type activities.

Management's Discussion and Analysis

Major capital asset events during the current fiscal year included the following:

- Implementation of the Eden ERP system and related hardware in the amount of \$508 thousand
- Construction, reconstruction, or widening of streets and sidewalks in the amount of \$6.4 million.
- Reconstruction of Ramp 3 (Gilmore Ramp) in the amount of \$2 million.

City of Kalamazoo's Capital Assets (net of depreciation)

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$ 29,522,851	\$ 29,497,851	\$ 2,865,494	\$ 2,875,383	\$ 32,388,345	\$ 32,373,234
Building & Improvements	28,247,771	28,343,884	55,654,338	57,232,416	83,902,109	85,576,300
Land Improvements	1,789,892	1,627,235	5,754,411	6,072,411	7,544,303	7,699,646
Machinery & Equipment	4,423,092	4,235,700	11,921,167	12,713,917	16,344,259	16,949,617
Vehicles	3,459,481	3,294,109	1,400,741	1,122,426	4,860,222	4,416,535
Infrastructure	89,375,797	86,449,410	88,510,116	85,832,274	177,885,913	172,281,684
Intangible Assets	-	-	1,320,993	570,225	1,320,993	570,225
Construction in Progress	13,242,481	10,869,410	8,390,334	4,492,054	21,632,815	15,361,464
Total	<u>\$ 170,061,365</u>	<u>\$ 164,317,599</u>	<u>\$ 175,817,594</u>	<u>\$ 170,911,106</u>	<u>\$ 345,878,959</u>	<u>\$ 335,228,705</u>

Additional information on the City's capital assets, including detailed changes from 2005, can be found in Note III C on pages 60-62 of this report.

Long-term debt. In total, the City's long-term liabilities increased \$ 3,583,982 or 3.7% to \$98,157,034.

At the end of the current fiscal year, the City had total *bonded* debt outstanding of \$84,795,000, an increase from 2005 of \$3,390,000. Of this amount, \$51,353,330 was comprised of debt backed by the full faith and credit of the government ("general obligation debt"). The remainder of the City's bonded debt represented \$33,540,000 in bonds secured solely by specified revenue sources ("revenue bonds"), and \$335,000 in bonds supported by a special assessment levy.

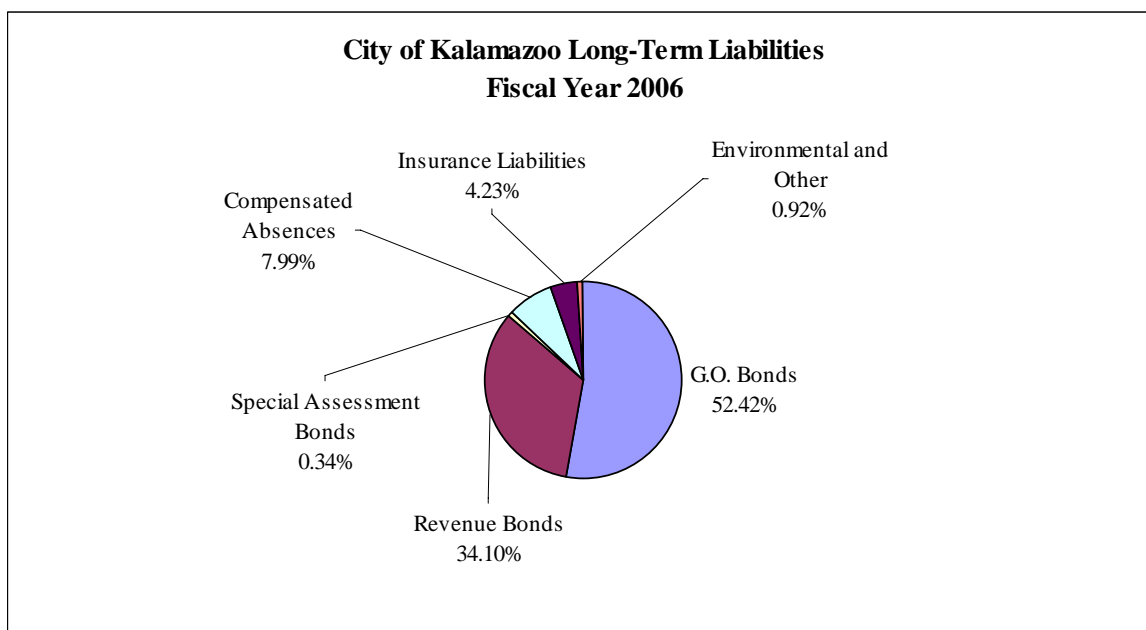
Michigan statutes limit the amount of *general obligation* debt a governmental entity may issue to 10% of its total state equalized valuation. The current debt limitation for the City was \$191,839,442, which was significantly in excess of the City's \$85.2 million in outstanding general obligation debt.

Management's Discussion and Analysis

During the current fiscal year, the City issued three new bonds: \$7,110,000 of new general obligation bonds and \$4,690,000 Water Supply Revenue bonds. The general obligation bonds were issued to fund the public sectors final commitment to the overall \$27 million Cinema/Ramp Project and to build the new Park Street Public Safety Station. In addition, \$2,400,000 of its existing debt was defeased to take of advantage of favorable interest rates.

Also contributing to the overall change in City long-term liabilities was a \$496,691 increase in other liabilities. The result of an increase in compensated absences and uninsured claim liabilities.

The major categories of long-term liabilities are depicted in the following graph:



Additional information on the City's long-term debt, including comparisons by category to 2005, can be found in note disclosures on pages 63-69.

Bond Ratings

The following chart depicts the City's credit rating for the various outstanding debt and the different rating agencies as of December 31, 2006.

	Fitch	S&P
Water and wastewater revenue bonds	AA-	AA-
General obligation limited tax bonds	AA	AA
General obligation unlimited tax bonds	AA	AA

Management's Discussion and Analysis

Economic Factors and Next Year's Budgets and Rates

The City of Kalamazoo is a mid-sized, urban Michigan municipality. Like many other urban communities, the City is “built-out”, meaning its land, for the most part, is developed, and that other local units of government, which prohibits any boundary expansion, surround it. While proactive in its economic development policies (see the Transmittal Letter for a more in-depth description), the City faces challenges common of most aging urban communities.

The City is home to the main campuses of Western Michigan University, from which the City derives immense economic and intellectual benefits. However, because of the university's location, as well as being the County seat, 40% of the City's land is considered non-taxable. Furthermore, the voters to the State of Michigan have, over the years, enacted two property tax growth control measures, the “Headlee Amendment” and “Proposal A”. These measures have the effect of limiting property tax revenue growth to rate of inflation, which has been unusually low the past several years.

Since 2002, the City and other Michigan local governments have experienced a significant reduction in state revenue sharing. As a result of above-mentioned factors, the City levies the maximum charter millage rate. Reductions in state revenue sharing, a cumulative amount of \$11.8 million since 2000, combined with the property tax limitation measures and the large amount of tax-exempt properties, have presented significant challenges to the City in maintaining service levels.

To address these fiscal challenges, the City has enacted a number of budgeting measures over the past several years, including reductions in staffing and certain support area service levels. Additionally, the City has developed a five-year fiscal plan “Blueprint for Action: A Sustainable Community”, which details the foundation for a transformation from budgeting based on “allocation of resources” to an outcomes based approach. The 2007 budget begins to implement this new approach to budgeting, which will focus on positively impacting the quality of life for all citizens of the Kalamazoo community.

The fiscal plan includes updates to the formal City of Kalamazoo's General Fund Reserve Policy that guides the creation, maintenance and use of reserves. The fund balance of the General Operating Fund will be budgeted within the target range of 13 – 15 percent of budgeted annual operating revenues. As well, the City has created two formal reserve accounts to provide fiscal stability from year to year and provide emergency funds to replace unanticipated equipment failures or for unscheduled economic development initiatives.

Management's Discussion and Analysis

The 2007 budget once again maintains basic services and infrastructure, economic growth, neighborhood and community development, affordable housing and expansion of the resource base. The 2007 fiscal year budget increases operational General Fund spending by 5% from fiscal year 2006 amended budget, despite contractual wage increases and the escalating cost of health care, while transferring a significant amount, \$4.1 million or 7.7% of total expenditures, for capital project needs. Additionally, the City has set-aside \$600 thousand into two different fund reservation accounts for Capital Reserve funds and Budget Stabilization funds.

For fiscal year 2007, the ending fund balance is budgeted to come in at 14% of revenues and other financing sources.

Property tax millage rates are budgeted to remain the same in fiscal year 2007.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City's Management Services Director, 241 W. South Street, Kalamazoo, Michigan 49007.

CITY OF KALAMAZOO, MICHIGAN

Statement of Net Assets

December 31, 2006

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 23,048,689	\$ 9,059,588	\$ 32,108,277	\$ 5,640,630
Investments	4,366,705	-	4,366,705	-
Receivables, net	31,341,826	6,707,523	38,049,349	6,880,947
Internal balances	731,935	(731,935)	-	-
Prepaid items and other assets	1,132,715	1,776,481	2,909,196	410,712
Restricted cash	1,955,462	2,864,900	4,820,362	1,503,865
Restricted investments	-	10,793,666	10,793,666	1,132,909
Investments with agents	2,122,798	-	2,122,798	-
Assets held for resale	412,633	-	412,633	-
Capital assets not being depreciated	42,765,332	11,255,828	54,021,160	10,406,058
Capital assets being depreciated, net	127,296,033	164,561,766	291,857,799	10,748,485
Total assets	235,174,128	206,287,817	441,461,945	36,723,606
Liabilities				
Accounts payable and accrued expenses	5,953,331	3,541,991	9,495,322	12,443,784
Unearned revenue	306,244	-	306,244	1,476,371
Long-term liabilities:				
Due within one year	7,746,521	1,673,775	9,420,296	329,042
Due in more than one year	64,645,312	24,091,426	88,736,738	499,051
Total liabilities	78,651,408	29,307,192	107,958,600	14,748,248
Net assets				
Invested in capital assets, net of related debt	109,408,557	152,082,594	261,491,151	19,763,368
Restricted net assets:				
Non-expendable restricted net assets	2,743,348	-	2,743,348	-
Expendable restricted net assets:				
Debt service	6,662,283	-	6,662,283	-
Major and local street projects	3,062,729	-	3,062,729	-
Economic development projects	4,083,849	-	4,083,849	-
Programs	12,205,689	11,618,293	23,823,982	-
Unrestricted	18,356,265	13,279,738	31,636,003	2,211,990
Total net assets	\$ 156,522,720	\$ 176,980,625	\$ 333,503,345	\$ 21,975,358

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN

Statement of Activities

For the Year Ended December 31, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	\$ 6,491,807	\$ 2,988,396	\$ 181,004	\$ -
Public safety (combined police & fire)	29,898,894	398,274	1,472,833	393,565
Economic development	527,345	12,996	25,000	-
Community development and planning	5,051,199	1,166,367	2,617,394	-
Parks	894,120	22,194	90	-
Recreation	1,855,689	318,978	388,741	-
Public works	5,255,159	290,226	954,124	-
Streets (maintenance & depreciation)	6,636,399	43,196	5,777,896	-
Interest on long-term debt	3,091,454	-	2,022,351	-
Total governmental activities	<u>59,702,066</u>	<u>5,240,627</u>	<u>13,439,433</u>	<u>393,565</u>
Business-type activities:				
Wastewater	20,370,767	17,996,945	639,428	30,858
Water	11,875,242	10,933,129	371,305	3,587,145
Other	40,649	45,611	-	-
Total business-type activities	<u>32,286,658</u>	<u>28,975,685</u>	<u>1,010,733</u>	<u>3,618,003</u>
Total primary government	<u>\$ 91,988,724</u>	<u>\$ 34,216,312</u>	<u>\$ 14,450,166</u>	<u>\$ 4,011,568</u>
Component units				
Development authorities	\$ 7,822,304	\$ 2,470,120	\$ 1,309,965	\$ 74,210
Public transportation	13,155,785	2,100,135	8,608,399	3,861,724
Hospital financing authority	616,659	616,659	-	-
Golf courses	<u>1,454,276</u>	<u>1,373,447</u>	<u>2,031</u>	<u>-</u>
Total component units	<u>\$ 23,049,024</u>	<u>\$ 6,560,361</u>	<u>\$ 9,920,395</u>	<u>\$ 3,935,934</u>

General revenues:

Property taxes

Grants and contributions not restricted
to specific programs

Unrestricted investment earnings

Gain on disposal of capital assets

Contributions to permanent funds

Total general revenues and contributions

Change in net assets

Net assets, beginning of year, as restated

Net assets, end of year

Net (Expense) Revenue and Changes in Net Assets

Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (3,322,407)	\$ -	\$ (3,322,407)	\$ -
(27,634,222)	-	(27,634,222)	-
(489,349)	-	(489,349)	-
(1,267,438)	-	(1,267,438)	-
(871,836)	-	(871,836)	-
(1,147,970)	-	(1,147,970)	-
(4,010,809)	-	(4,010,809)	-
(815,307)	-	(815,307)	-
(1,069,103)	-	(1,069,103)	-
(40,628,441)	-	(40,628,441)	-
-	(1,703,536)	(1,703,536)	-
-	3,016,337	3,016,337	-
-	4,962	4,962	-
-	1,317,763	1,317,763	-
(40,628,441)	1,317,763	(39,310,678)	-
-	-	-	(3,968,009)
-	-	-	1,414,473
-	-	-	-
-	-	-	(78,798)
-	-	-	(2,632,334)
35,148,859	-	35,148,859	5,700,566
10,967,559	8,645	10,976,204	-
1,757,763	36,799	1,794,562	-
-	146,851	146,851	2,500
44,577	-	44,577	-
47,918,758	192,295	48,111,053	5,703,066
7,290,317	1,510,058	8,800,375	3,070,732
149,232,403	175,470,567	324,702,970	18,904,626
\$ 156,522,720	\$ 176,980,625	\$ 333,503,345	\$ 21,975,358

CITY OF KALAMAZOO, MICHIGAN
Balance Sheet
Governmental Funds
December 31, 2006

	General	Solid Waste	Neighborhood and Community Development	Building Authority Debt Service
<u>ASSETS</u>				
Assets				
Cash and cash equivalents	\$ 4,374,030	\$ 697,716	\$ 478,124	\$ 179,731
Investments	-	-	-	-
Receivables:				
Taxes	7,845,783	628,072	-	-
Notes	98,000	-	6,297,826	-
Special assessments	13,273	-	-	-
Accrued interest	24,217	-	2,385	-
Other	1,619,692	-	76,832	-
Due from other funds	2,852,166	543,655	4,706	241
Due from component units	208,258	5,227	-	6,665,987
Due from other governments	232,824	-	295,054	-
Advances to other funds	340,000	-	-	-
Advances to component units	-	-	-	-
Prepaid items and other assets	126,371	-	-	-
Restricted cash	-	-	-	-
Investments with agents	-	-	-	-
Assets held for resale	-	-	412,633	-
<u>TOTAL ASSETS</u>	<u>\$ 17,734,614</u>	<u>\$ 1,874,670</u>	<u>\$ 7,567,560</u>	<u>\$ 6,845,959</u>
<u>LIABILITIES AND FUND BALANCE</u>				
Liabilities				
Accounts payable	\$ 527,245	\$ 294,585	\$ 101,742	\$ 4,000
Accrued and other liabilities	1,265,092	2,050	15,408	-
Due to other funds	2,200,269	181,743	200,285	86,653
Due to component units	24,786	969	-	-
Due to other governments	20,670	-	16,093	-
Advances from other funds	-	-	-	-
Deposits payable	13,877	-	77,620	-
Deferred revenue	7,527,152	501,960	6,390,825	6,665,987
Total liabilities	11,579,091	981,307	6,801,973	6,756,640
Fund balance				
Reserved for:				
Encumbrances	134,464	-	66,849	-
Prepaid items	126,371	-	-	-
Long-term receivables	-	-	-	-
Advances to other funds	340,000	-	-	-
Advances to component unit	-	-	-	-
Cemetery perpetual care	-	-	-	-
Recreational activities	-	-	-	-
Debt-financed projects	-	-	-	-
Neighborhood/community development	-	-	412,633	-
Unreserved:				
Designated for subsequent years' expenditures	2,783,383	-	-	89,319
Designated for subsequent years' expenditures, reported in nonmajor special revenue funds	-	-	-	-
Undesignated	2,771,305	893,363	286,105	-
Undesignated, reported in nonmajor:				
Special revenue funds	-	-	-	-
Debt service funds	-	-	-	-
Capital projects funds	-	-	-	-
Permanent funds	-	-	-	-
Total fund balance	6,155,523	893,363	765,587	89,319
<u>TOTAL LIABILITIES AND FUND BALANCE</u>	<u>\$ 17,734,614</u>	<u>\$ 1,874,670</u>	<u>\$ 7,567,560</u>	<u>\$ 6,845,959</u>

The accompanying notes are an integral part of these financial statements.

Other Governmental Funds		Total	
\$	10,572,766	\$	16,302,367
	4,366,705		4,366,705
	-		8,473,855
	674,253		7,070,079
	158,064		171,337
	29,143		55,745
	1,146,241		2,842,765
	1,128,378		4,529,146
	368,420		7,247,892
	944,333		1,472,211
	7,329		347,329
	3,782,976		3,782,976
	7,505		133,876
	1,955,462		1,955,462
	2,122,798		2,122,798
	-		412,633
\$	27,264,373	\$	61,287,176

\$	542,786	\$	1,470,358
	52,597		1,335,147
	1,952,204		4,621,154
	127,534		153,289
	-		36,763
	7,329		7,329
	930,015		1,021,512
	1,458,878		22,544,802
	5,071,343		31,190,354

	1,832,621		2,033,934
	7,505		133,876
	200,000		200,000
	7,329		347,329
	3,882,976		3,882,976
	1,735,160		1,735,160
	1,008,188		1,008,188
	24,593		24,593
	-		412,633
	6,712,043		9,584,745
	801,667		801,667
	-		3,950,773
	2,025,320		2,025,320
	159,276		159,276
	1,185,692		1,185,692
	2,610,660		2,610,660
	22,193,030		30,096,822
\$	27,264,373	\$	61,287,176

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets
of Governmental Activities on the Statement of Net Assets
December 31, 2006

Fund balances - total governmental funds	\$ 30,096,822
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore not reported in the funds.

Add: capital assets	279,457,966
Subtract: accumulated depreciation	(111,619,357)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred property taxes	6,085,302
Add: other deferred revenues	16,170,856

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in internal service funds	6,693,476
Subtract: net assets allocated to business-type activities from governmental-type activity internal service funds	(1,862,121)
Subtract: net assets allocated to component units from governmental-type activity internal service funds	(538,925)

Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.

Subtract: bonds and installment purchase contracts payable	(61,493,300)
Subtract: accrued interest on long-term debt	(680,440)
Subtract: compensated absences	(5,696,046)
Subtract: environmental liabilities	(710,011)
Subtract: unamortized bond premium	(197,401)

Costs associated with the issuance of bonds are expended in the individual funds, but are capitalized and amortized over the life of the bonds in the statement of net assets.

Add: deferred charges for bond issuance costs	815,899
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Net assets of governmental activities	<u><u>\$ 156,522,720</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2006

	General	Solid Waste	Neighborhood and Community Development	Building Authority Debt Service
Revenue				
Property taxes and special assessments	\$ 31,709,184	\$ 2,756,557	\$ -	\$ -
Licenses and permits	1,937,580	-	-	-
Intergovernmental revenue	11,456,038	-	2,598,186	-
Charges for services	1,284,654	-	77,856	-
Fines and forfeits	44,884	-	-	-
Interest and dividends	1,296,667	17,122	9,697	13,790
Net investment earnings	-	-	-	-
Rental of facilities	-	-	-	2,803,567
Other revenue	4,882,724	6	4,809	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue	52,611,731	2,773,685	2,690,548	2,817,357
	<hr/>	<hr/>	<hr/>	<hr/>
Expenditures				
Current expenditures:				
General government	8,988,625	-	-	-
Public safety (combined police & fire)	29,482,219	-	-	-
Economic development	500,000	-	-	-
Community development and planning	2,673,172	-	2,439,866	-
Parks and recreation	2,208,137	-	-	-
Public works	1,143,920	-	-	-
Cemeteries	-	-	-	-
Solid waste	-	2,239,957	-	-
Streets	-	-	-	-
Other	-	-	-	169,271
Debt service:				
Principal	-	-	-	2,190,000
Interest and fiscal charges	205,608	-	-	1,923,762
Capital outlay	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	45,201,681	2,239,957	2,439,866	4,283,033
	<hr/>	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenue over expenditures	7,410,050	533,728	250,682	(1,465,676)
	<hr/>	<hr/>	<hr/>	<hr/>
Other financing sources (uses)				
Transfers in	-	-	200,000	1,309,695
Transfers out	(4,648,630)	-	(18,149)	-
Proceeds from the sale of capital assets	36,705	-	-	-
Issuance of long-term debt	-	-	-	-
Bond premium	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	(4,611,925)	-	181,851	1,309,695
	<hr/>	<hr/>	<hr/>	<hr/>
Net change in fund balances	2,798,125	533,728	432,533	(155,981)
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balance, beginning of year, as restated	3,357,398	359,635	333,054	245,300
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balance, end of year	<u>\$ 6,155,523</u>	<u>\$ 893,363</u>	<u>\$ 765,587</u>	<u>\$ 89,319</u>

The accompanying notes are an integral part of these financial statements.

Other Governmental Funds		Total	
\$	43,196	\$	34,508,937
	-		1,937,580
	6,066,296		20,120,520
	236,749		1,599,259
	196,191		241,075
	795,306		2,132,582
	660,122		660,122
	-		2,803,567
	2,692,982		7,580,521
	10,690,842		71,584,163
	-		8,988,625
	1,065,263		30,547,482
	65,017		565,017
	14,447		5,127,485
	379,022		2,587,159
	-		1,143,920
	555,138		555,138
	-		2,239,957
	9,580,546		9,580,546
	-		169,271
	2,877,709		5,067,709
	783,299		2,912,669
	5,125,701		5,125,701
	20,446,142		74,610,679
	(9,755,300)		(3,026,516)
	8,491,912		10,001,607
	(6,091,679)		(10,758,458)
	-		36,705
	7,110,000		7,110,000
	23,732		23,732
	9,533,965		6,413,586
	(221,335)		3,387,070
	22,414,365		26,709,752
\$	22,193,030	\$	30,096,822

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of the Statement of Revenue, Expenditures
and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2006

Net change in fund balances - total governmental funds	\$	3,387,070
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay		10,821,566
Subtract: depreciation expense		(5,397,655)
Subtract: proceeds from the sale of capital assets		(36,705)
Subtract: loss on disposal of capital assets		(60,198)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Add: net change in deferred property tax revenues		273,284
Subtract: net change in other deferred revenue		(1,779,981)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities		5,067,709
Add: bond issuance costs capitalized		207,504
Subtract: bond proceeds received		(7,110,000)
Subtract: bond premium received		(23,732)
Subtract: bond issuance costs amortized		(47,025)

The reduction of the City's long-term liabilities did not provide current financial resources, and was consequently not reported in the funds.

Add: reduction of long-term liability for environmental remediation		74,595
Add: reduction of long-term liability for tax tribunal payments		119,045

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Subtract: increase in accrued interest on bonds		(131,758)
Subtract: increase in the accrual of compensated absences		(62,030)

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.

Add: interest revenue from governmental internal service funds		212,571
Subtract: gain/loss on disposal of capital assets in governmental internal service funds		30,490
Add: net operating gain from governmental activities accounted for in internal service funds		988,716
Subtract: net transfers (internal activities) from governmental internal service funds		756,851

Change in net assets of governmental activities	\$	7,290,317
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The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
General Fund
For the Year Ended December 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue				
Property taxes and special assessments	\$ 30,577,413	\$ 30,577,413	\$ 31,970,176	\$ 1,392,763
Licenses and permits	2,038,565	2,038,565	1,937,580	(100,985)
Intergovernmental	11,442,972	11,445,972	11,456,038	10,066
Charges for services	1,102,380	1,102,380	1,284,654	182,274
Fines and forfeitures	47,005	47,005	44,884	(2,121)
Interest and rent	709,500	709,500	1,296,667	587,167
Other revenue	4,187,555	4,187,555	4,882,724	695,169
Total revenue	50,105,390	50,108,390	52,872,723	2,764,333
Expenditures				
City Commission	68,174	190,544	131,429	59,115
City Administration: City Manager	740,223	773,411	763,043	10,368
City Attorney	826,130	865,503	845,262	20,241
City Clerk:				
Administration	249,338	268,986	261,861	7,125
Election	143,387	149,387	162,432	(13,045)
Records management	244,525	245,637	189,095	56,542
Total city clerk	637,250	664,010	613,388	50,622
Internal Audit	86,577	87,836	84,839	2,997
Human Resources	798,675	828,843	822,118	6,725
Management Services Department:				
Accounting	1,044,771	1,075,675	1,035,825	39,850
Assessing	717,912	726,569	661,136	65,433
Treasury	927,960	931,904	881,396	50,508
Purchasing and risk management	491,495	495,526	455,060	40,466
Total management services department	3,182,138	3,229,674	3,033,417	196,257
Public Safety (combined police and fire):				
Administration	1,030,816	1,043,665	1,039,801	3,864
Training	841,524	888,527	788,929	99,598
K-Vet drug enforcement	1,365,555	1,366,346	1,245,556	120,790
Operations division	18,101,835	18,101,835	17,298,109	803,726
Criminal investigations	3,275,090	3,262,291	3,155,425	106,866
Service division	5,919,896	5,998,179	5,954,399	43,780
Total public safety (combined police and fire)	30,534,716	30,660,843	29,482,219	1,178,624

Continued...

CITY OF KALAMAZOO, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual (Concluded)
General Fund
For the Year Ended December 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Expenditures (concluded)				
Public Works:				
Forestry, creeks, and environmental inspections	\$ 732,178	\$ 732,178	\$ 780,307	\$ (48,129)
Sidewalks and Pedestrian Mall maintenance	401,785	401,785	363,613	38,172
Total public works	1,133,963	1,133,963	1,143,920	(9,957)
Economic Development	500,000	500,000	500,000	-
Community Planning and Development:				
Programs	587,689	598,201	555,323	42,878
Planning	427,518	431,957	404,885	27,072
Inspections	1,788,261	1,837,066	1,712,964	124,102
Total community planning and development	2,803,468	2,867,224	2,673,172	194,052
Parks and Recreation:				
Parks maintenance	1,050,980	1,050,980	950,919	100,061
Recreation	1,343,512	1,383,424	1,257,218	126,206
Total parks and recreation	2,394,492	2,434,404	2,208,137	226,267
Non-Departmental:				
City Hall maintenance	535,031	535,031	549,347	(14,316)
Street lighting	-	-	954,452	(954,452)
Debt Service - interest and fiscal charges	-	206,741	205,608	1,133
Other	2,516,204	2,723,852	1,191,330	1,532,522
Total non-departmental	3,051,235	3,465,624	2,900,737	564,887
Total expenditures	46,757,041	47,701,879	45,201,681	2,500,198
Excess (deficiency) of revenue over expenditures	3,348,349	2,406,511	7,671,042	5,264,531
Other financing sources (uses)				
Transfers out	(4,474,370)	(4,649,169)	(4,648,630)	539
Proceeds from the sale of capital assets	2,000	2,000	36,705	34,705
Total other financing uses	(4,472,370)	(4,647,169)	(4,611,925)	35,244
Net change in fund balance	(1,124,021)	(2,240,658)	3,059,117	5,299,775
Fund balance, beginning of year	8,679,748	8,679,748	8,679,748	-
Fund balance, end of year (budgetary basis)	\$ 7,555,727	\$ 6,439,090	11,738,865	\$ 5,299,775
Accounting basis difference			(5,583,342)	
Fund balance, end of year (GAAP basis)			\$ 6,155,523	

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
Solid Waste
For the Year Ended December 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue				
Taxes	\$ 2,677,043	\$ 2,677,043	\$ 2,768,849	\$ 91,806
Interest and dividends	-	-	17,122	17,122
Other revenue	-	-	6	6
Total revenue	2,677,043	2,677,043	2,785,977	108,934
Expenditures				
Solid Waste	2,365,051	2,379,950	2,239,957	139,993
Excess of revenue over expenditures	311,992	297,093	546,020	248,927
Fund balance, beginning of year	849,303	849,303	849,303	-
Fund balance, end of year (budgetary basis)	<u>\$ 1,161,295</u>	<u>\$ 1,146,396</u>	1,395,323	<u>\$ 248,927</u>
Accounting basis difference			(501,960)	
Fund balance, end of year (GAAP basis)			<u>\$ 893,363</u>	

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
Neighborhood and Community Development Fund
For the Year Ended December 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue				
Intergovernmental revenue:				
Federal grants	\$ 961,773	\$ 5,539,167	\$ 2,598,186	\$ (2,940,981)
Charges for services	-	-	77,856	77,856
Interest	-	-	9,697	9,697
Other revenue	-	-	4,809	4,809
Total revenue	961,773	5,539,167	2,690,548	(2,848,619)
Expenditures				
Community Development:				
Demolition revolving	30,300	256,546	77,027	179,519
Housing services	961,773	961,773	706,897	254,876
Community Development Block Grant	-	2,773,414	1,292,574	1,480,840
Housing rehabilitation	-	7,072	217	6,855
HOME	-	1,803,980	363,151	1,440,829
Total expenditures	992,073	5,802,785	2,439,866	3,362,919
Excess (deficiency) of revenue over expenditures	(30,300)	(263,618)	250,682	514,300
Other financing uses				
Transfers in:				
General Fund	-	200,000	200,000	-
Transfers out:				
Grants and Donations Fund	-	-	(18,149)	(18,149)
Total other financing uses	-	200,000	181,851	(18,149)
Net change in fund balance	(30,300)	(63,618)	432,533	496,151
Fund balance, beginning of year, as restated	333,054	333,054	333,054	-
Fund balance, end of year	\$ 302,754	\$ 269,436	\$ 765,587	\$ 496,151

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN

Statement of Net Assets

Proprietary Funds

December 31, 2006

	Enterprise Funds				Internal Service Funds
	Wastewater	Water	Nonmajor City Market	Total	
Assets					
Current assets:					
Cash and cash equivalents	\$ 5,957,590	\$ 3,058,384	\$ 42,899	\$ 9,058,873	\$ 6,747,037
Receivables:					
Customers	4,172,007	2,173,815	-	6,345,822	-
Special assessments	109,121	-	-	109,121	-
Accrued interest	2,562	6,508	-	9,070	-
Other	-	-	-	-	85,166
Due from other funds	879,192	1,867,707	-	2,746,899	6,261,656
Due from component units	17,537	821	-	18,358	139,800
Inventories	431,395	348,487	-	779,882	221,134
Prepaid items and other assets	5,027	9,746	-	14,773	230
Total current assets	11,574,431	7,465,468	42,899	19,082,798	13,455,023
Noncurrent assets:					
Restricted cash	402,184	1,638,089	-	2,040,273	824,627
Restricted investments	8,171,713	2,621,953	-	10,793,666	-
Notes receivable, long-term	-	1,227	-	1,227	-
Advances to component units	223,925	-	-	223,925	-
Deferred bond issuance costs	118,074	825,328	-	943,402	-
Capital assets	89,722,225	84,482,511	90,427	174,295,163	3,745,187
Total noncurrent assets	98,638,121	89,569,108	90,427	188,297,656	4,569,814
Total assets	110,212,552	97,034,576	133,326	207,380,454	18,024,837
Liabilities					
Current liabilities:					
Accounts payable	1,245,167	657,400	45	1,902,612	276,179
Accrued and other liabilities	269,703	381,917	132	651,752	556,740
Due to other funds	3,953,434	1,633,623	173	5,587,230	3,329,317
Due to component units	-	-	-	-	30
Due to other governments	26,989	56,731	-	83,720	-
Advances from other funds	-	-	-	-	340,000
Deposits payable	400	787,455	-	787,855	-
Unearned revenue	-	-	-	-	17,600
Current portion of compensated absences	155,671	93,400	-	249,071	21,070
Current portion of long-term debt	200,000	1,220,000	-	1,420,000	1,853,632
Total current liabilities	5,851,364	4,830,526	350	10,682,240	6,394,568
Noncurrent liabilities:					
Bonds payable	3,625,000	18,690,000	-	22,315,000	-
Compensated absences payable	1,089,700	653,797	-	1,743,497	147,489
Employee death benefits payable	-	-	-	-	263,829
Uninsured claim liability	-	-	-	-	2,046,688
Total noncurrent liabilities	4,714,700	19,343,797	-	24,058,497	2,458,006
Total liabilities	10,566,064	24,174,323	350	34,740,737	8,852,574
Net assets					
Invested in capital assets, net of related debt	85,897,225	64,572,511	90,427	150,560,163	3,745,187
Restricted for:					
Asset replacement	4,096,884	2,621,953	-	6,718,837	2,418,905
Capital improvements	4,074,829	-	-	4,074,829	-
Unrestricted	5,577,550	5,665,789	42,549	11,285,888	3,008,171
Total net assets	\$ 99,646,488	\$ 72,860,253	\$ 132,976	\$ 172,639,717	\$ 9,172,263

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of Net Assets on the Statement of Net Assets
for Proprietary Funds to Net Assets
of Business-Type Activities on the Statement of Net Assets
December 31, 2006

Net assets - total enterprise funds	\$ 172,639,717
 Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The assets and liabilities of certain internal service funds are included in business-type activities in the Statement of Net Assets	
 Add: net assets of business-type activities accounted for in business-type activity internal service funds	 2,478,787
Add: net assets allocated to business-type activities from governmental-type activity internal service funds	<u>1,862,121</u>
 Net assets of business-type activities	 <u><u>\$ 176,980,625</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Statement of Revenue, Expenses and
Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2006

	Enterprise Funds				
			Nonmajor City Market	Total	Internal Service Funds
	Wastewater	Water			
Operating revenue					
Charges for services	\$ 17,932,019	\$ 10,806,470	\$ 45,611	\$ 28,784,100	\$ 27,350,953
Other	73,508	194,341	-	267,849	-
Total operating revenue	18,005,527	11,000,811	45,611	29,051,949	27,350,953
Operating expenses					
Operation and maintenance	16,337,479	8,396,955	36,689	24,771,123	7,518,073
Risk management	-	-	-	-	17,400,081
Depreciation	4,037,279	2,711,071	3,960	6,752,310	1,021,306
Total operating expenses	20,374,758	11,108,026	40,649	31,523,433	25,939,460
Operating income (loss)	(2,369,231)	(107,215)	4,962	(2,471,484)	1,411,493
Non-operating revenue (expenses)					
Interest income	639,428	303,686	1,855	944,969	247,511
Interest expense	(184,283)	(898,575)	-	(1,082,858)	-
Gain (loss) on sale of capital assets	50,188	(35)	-	50,153	177,376
Total non-operating revenue (expenses)	505,333	(594,924)	1,855	(87,736)	424,887
Income (loss) before contributions and transfers	(1,863,898)	(702,139)	6,817	(2,559,220)	1,836,380
Capital contributions	30,858	3,587,145	-	3,618,003	-
Transfers					
Transfers in	-	-	-	-	756,851
Increase (decrease) in net assets	(1,833,040)	2,885,006	6,817	1,058,783	2,593,231
Net assets, beginning of year	101,479,528	69,975,247	126,159	171,580,934	6,579,032
Net assets, end of year	<u>\$ 99,646,488</u>	<u>\$ 72,860,253</u>	<u>\$ 132,976</u>	<u>\$ 172,639,717</u>	<u>\$ 9,172,263</u>

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of the Statement of Revenue, Expenses
and Changes in Fund Net Assets
of Proprietary Funds to the Statement of Activities
For the Year Ended December 31, 2006

Net change in net assets - total proprietary funds	\$ 1,058,783
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Amounts reported for business-type *activities* in the statement of activities are different because:

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The net revenue (expense) of certain internal service funds is reported with business-type activities.

Add: interest revenue from business-type activity internal service funds	34,940
Add: gain on disposal of capital assets in business-type internal service funds	146,886
Subtract: net operating loss from business-type activities accounted for in internal service funds	(122,077)
Add: net operating gain from business-type activities accounted for in governmental internal service funds	391,526

Change in net assets of business-type activities	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; width: 100%;">\$ 1,510,058</div>
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The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2006

	Enterprise Funds				Internal Service Funds
	Wastewater	Water	Nonmajor City Market	Total	
Cash flows from operating activities					
Cash received from customers	\$ 16,164,729	\$ 9,844,789	\$ 45,611	\$ 26,055,129	\$ -
Cash received from providing interfund services	-	-	-	-	24,213,856
Cash payments to suppliers for goods and services	(6,867,874)	(3,260,334)	(25,106)	(10,153,314)	(20,885,690)
Cash payments to employees for services	(5,495,079)	(3,659,606)	(18,981)	(9,173,666)	(2,866,923)
Net cash provided by operating activities	3,801,776	2,924,849	1,524	6,728,149	461,243
Cash flows from non-capital financing activities					
Transfers in	-	-	-	-	756,851
Cash flows from capital and related financing activities					
Principal payments	(195,000)	(3,450,000)	-	(3,645,000)	-
Interest payments	(175,849)	(938,871)	-	(1,114,720)	-
Proceeds from issuance of long-term debt	-	4,690,000	-	4,690,000	-
Purchases of capital assets	(4,845,599)	(6,622,027)	-	(11,467,626)	(1,644,792)
Capital contributions received	30,858	3,587,145	-	3,618,003	-
Proceeds from sale of capital assets	60,140	18	-	60,158	182,925
Net cash provided (used) by capital and related financing activities	(5,125,450)	(2,733,735)	-	(7,859,185)	(1,461,867)
Cash flows from investing activities					
Interest received	639,428	303,686	1,855	944,969	247,511
Purchase of investments	(8,171,713)	(2,621,953)	-	(10,793,666)	-
Sale of investments	11,250,461	2,475,253	-	13,725,714	-
Net cash provided by investing activities	3,718,176	156,986	1,855	3,877,017	247,511
Net increase in cash and cash equivalents	2,394,502	348,100	3,379	2,745,981	3,738
Cash and cash equivalents, beginning of year	3,965,272	4,348,373	39,520	8,353,165	7,567,926
Cash and cash equivalents, end of year	\$ 6,359,774	\$ 4,696,473	\$ 42,899	\$ 11,099,146	\$ 7,571,664
Statement of net assets classification of cash and cash equivalents					
Cash and cash equivalents	\$ 5,957,590	\$ 3,058,384	\$ 42,899	\$ 9,058,873	\$ 6,747,037
Restricted assets	402,184	1,638,089	-	2,040,273	824,627
	\$ 6,359,774	\$ 4,696,473	\$ 42,899	\$ 11,099,146	\$ 7,571,664

Non-cash investing capital and financing transactions

All dividends and interest income were immediately reinvested in the cash management funds.

Continued...

CITY OF KALAMAZOO, MICHIGAN
Statement of Cash Flows
Proprietary Funds (Concluded)
For the Year Ended December 31, 2006

	Enterprise Funds					
			Nonmajor			
	Wastewater	Water	City Market	Total		Internal Service Funds
Reconciliation of operating income (loss) to net cash provided by operating activities:						
Operating income (loss)	\$ (2,369,231)	\$ (107,215)	\$ 4,962	\$ (2,471,484)	\$	1,411,493
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation	4,037,279	2,711,071	3,960	6,752,310		1,021,306
Changes in assets and liabilities:						
Receivables	(1,182,877)	(16,547)	-	(1,199,424)		1,523
Due from other funds	(640,384)	(1,138,654)	-	(1,779,038)		(3,080,417)
Due from component units	(17,537)	(821)	-	(18,358)		(58,203)
Inventories	130,557	24,595	-	155,152		(29,132)
Prepaid items and other assets	29,466	37,678	-	67,144		900
Advances to component units	12,429	821	-	13,250		-
Accounts payable	306,359	467,724	21	774,104		(164,462)
Accrued and other liabilities	(4,445)	(29,553)	(7,355)	(41,353)		37,002
Due to other funds	3,346,099	1,012,626	(64)	4,358,661		866,088
Due to component units	-	-	-	-		6
Due to other governments	26,989	56,731	-	83,720		-
Deposits payable	-	(115,966)	-	(115,966)		-
Compensated absences payable	127,072	22,359	-	149,431		7,040
Employee death benefits payable	-	-	-	-		11,784
Uninsured claim liability	-	-	-	-		436,315
Net cash provided by operating activities	\$ 3,801,776	\$ 2,924,849	\$ 1,524	\$ 6,728,149	\$	461,243

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2006

	Employees' Retirement System Pension Trust Fund	General Private Purpose Trust Fund	Tax Collector's Agency Fund
Assets			
Cash and cash equivalents	\$ 2,431,539	\$ 54,645	\$ 10,678,649
Investments:			
U.S. treasuries	68,307,731	-	-
U.S. agencies	26,453,918	-	-
Corporate debt securities	29,466,392	-	-
Equity mutual funds	369,115,379	-	-
Real estate mutual funds	25,552,484	-	-
Receivables:			
Taxes	-	-	43,093,129
Accrued interest	1,945,482	-	-
Other	144,572	-	2,237
Due from other governments	-	9,258	-
Investments with agent	-	500	-
	<hr/>	<hr/>	<hr/>
Total assets	523,417,497	64,403	\$ 53,774,015
	<hr/>	<hr/>	<hr/>
Liabilities			
Accounts payable	60,592	-	\$ 4,819
Accrued and other liabilities	113,825	49,557	-
Due to component units	-	-	1,870
Due to other governments	-	-	53,767,326
	<hr/>	<hr/>	<hr/>
Total liabilities	174,417	49,557	\$ 53,774,015
	<hr/>	<hr/>	<hr/>
Net assets			
Held in trust for pension			
benefits and other purposes	\$ 523,243,080	\$ 14,846	
	<hr/>	<hr/>	

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended December 31, 2006

	Employees' Retirement System Pension Trust Fund	General Private Purpose Trust Fund
Additions		
Contributions:		
Employees	\$ 1,518,785	\$ -
Other	-	9,258
Total contributions	<u>1,518,785</u>	<u>9,258</u>
Investment earnings:		
Net appreciation in fair value of investments	45,039,998	-
Interest and dividends	22,253,473	157
Less investment advisor fees	(839,099)	-
Net investment earnings	<u>66,454,372</u>	<u>157</u>
Total additions	<u>67,973,157</u>	<u>9,415</u>
Deductions		
Pension benefits paid directly to participants	14,256,358	-
Refund payments to terminated employees	109,251	-
Trustee fees	172,657	-
Actuarial fees	77,905	-
Administrative expenses paid to the City of Kalamazoo	105,235	-
Investment committee expenses	16,793	-
Parks and recreation	-	1,150
Other expenses	34,325	-
Total deductions	<u>14,772,524</u>	<u>1,150</u>
Change in net assets	53,200,633	8,265
Net assets, beginning of year	<u>470,042,447</u>	<u>6,581</u>
Net assets, end of year	<u><u>\$ 523,243,080</u></u>	<u><u>\$ 14,846</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Combining Statement of Net Assets
Component Units
December 31, 2006

	Downtown Development Authority	Economic Development Corporation	Brownfield Redevelopment Authority
Assets			
Cash and cash equivalents	\$ 207,528	\$ 79,357	\$ 1,559,571
Receivables, net	2,807,232	1,535,627	1,109,359
Other assets	54,576	-	-
Restricted cash	1,503,865	-	-
Restricted investments	-	-	-
Capital assets, net	295,701	-	-
	<hr/>	<hr/>	<hr/>
Total assets	4,868,902	1,614,984	2,668,930
	<hr/>	<hr/>	<hr/>
Liabilities			
Account payable and accrued liabilities	5,880,801	1,437,936	728,733
Unearned revenue	108,774	-	78,772
Long-term liabilities:			
Due within one year	307,785	-	-
Due in more than one year	350,251	-	-
	<hr/>	<hr/>	<hr/>
Total liabilities	6,647,611	1,437,936	807,505
	<hr/>	<hr/>	<hr/>
Net assets			
Invested in capital assets, net of related debt	289,513	-	-
Unrestricted (deficit)	(2,068,222)	177,048	1,861,425
	<hr/>	<hr/>	<hr/>
Total net assets	\$ (1,778,709)	\$ 177,048	\$ 1,861,425
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

Hospital Finance Authority	Local Development Finance Authority	Metro Transit	Kalamazoo Municipal Golf Association	Total	
\$	- \$	156,904 \$	3,538,420 \$	98,850 \$	5,640,630 \$
	-	93,291	1,330,573	4,865	6,880,947
	-	-	314,335	41,801	410,712
	-	-	-	-	1,503,865
	-	-	1,132,909	-	1,132,909
	-	-	19,485,300	1,373,542	21,154,543
	-	250,195	25,801,537	1,519,058	36,723,606
	-	1,943,050	1,047,883	1,405,381	12,443,784
	-	-	1,138,304	150,521	1,476,371
	-	-	-	-	-
	-	-	21,257	-	329,042
	-	-	148,800	-	499,051
	-	1,943,050	2,356,244	1,555,902	14,748,248
	-	-	19,485,300	(11,445)	19,763,368
	-	(1,692,855)	3,959,993	(25,399)	2,211,990
\$	- \$	(1,692,855) \$	23,445,293 \$	(36,844) \$	21,975,358 \$

CITY OF KALAMAZOO, MICHIGAN
Combining Statement of Activities
Component Units
For the Year Ended December 31, 2006

	Downtown Development Authority	Economic Development Corporation	Brownfield Redevelopment Authority
Expenses	\$ 6,677,448	\$ 80,767	\$ 795,138
Program revenues			
Intergovernmental revenue	-	-	306,906
Charges for services	2,470,120	-	-
Operating grants, contributions, and restricted interest	255,983	91,784	514,200
Capital grants and contributions	74,210	-	-
Total program revenues	2,800,313	91,784	821,106
Net (expense) revenue	(3,877,135)	11,017	25,968
General revenues:			
Property taxes	3,409,361	-	362,846
Unrestricted investment earnings	96,068	1,966	43,058
Gain (loss) on sale of capital assets	-	-	2,500
Total general revenues	3,505,429	1,966	408,404
Change in net assets	(371,706)	12,983	434,372
Net assets (deficit), beginning of year	(1,407,003)	164,065	1,427,053
Net assets (deficit), end of year	\$ (1,778,709)	\$ 177,048	\$ 1,861,425

The accompanying notes are an integral part of these financial statements.

Hospital Finance Authority	Local Development Finance Authority	Metro Transit	Kalamazoo Municipal Golf Association	Total
\$ 616,659	\$ 268,951	\$ 13,155,785	\$ 1,454,276	\$ 23,049,024
-	-	-	-	306,906
616,659	-	2,100,135	1,373,447	6,560,361
-	-	8,608,399	-	9,470,366
-	-	3,861,724	-	3,935,934
616,659	-	14,570,258	1,373,447	20,273,567
-	(268,951)	1,414,473	(80,829)	(2,775,457)
-	338,450	1,589,909	-	5,700,566
-	-	-	2,031	143,123
-	-	-	-	2,500
-	338,450	1,589,909	2,031	5,846,189
-	69,499	3,004,382	(78,798)	3,070,732
-	(1,762,354)	20,440,911	41,954	18,904,626
\$ -	\$ (1,692,855)	\$ 23,445,293	\$ (36,844)	\$ 21,975,358

CITY OF KALAMAZOO, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

INDEX

<u>NOTE</u>	<u>PAGE</u>
 I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	
A. Reporting Entity	42
B. Government-wide and fund financial statements	44
C. Measurement Focus, Basis of Accounting and Basis of Presentation	45
D. Assets, Liabilities and Equity	48
 II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY	
A. Budgetary Information	51
B. Budget/GAAP Reconciliation	52
C. Excess of Expenditures Over Appropriations	52
D. Deficit Fund Equity	53
 III. DETAILED NOTES ON ALL FUNDS	
A-1. Deposits and Investments – Pooled Cash and Investments	53
A-2. Deposits and Investments – Pension Trust Fund	56
B. Receivables and Deferred Revenue	59
C. Capital Assets	60
D. Accounts Payable and Accrued Expenses	62
E. Interfund Receivables, Payables, and Transfers	62
F. Long-Term Debt	63
G. Short-Term Debt	69
 IV. OTHER INFORMATION	
A. Risk Management	69
B. Property Taxes	70
C. Contingent Liabilities	72
D. Postemployment Benefits	73
E. Defined Benefit Pension Plan	73
F. Restatements	75
G. Subsequent Event	75

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Kalamazoo, Michigan (the “City”) conform to United States generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The City of Kalamazoo is a municipal corporation governed by an elected, seven-member City Commission. As required by generally accepted accounting principles, these financial statements present the City of Kalamazoo (the primary government) and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government’s operations and so data from these units are combined with data of the primary government. The discretely presented component units, on the other hand, are reported in a separate column on the statement of net assets to emphasize that they are legally separate from the government. Each blended and discretely presented component unit has a December 31 year end.

Blended Component Unit

Kalamazoo Building Authority – The Kalamazoo Building Authority has been blended into the City’s financial statements as debt service and capital project fund types. The Authority is governed by a three-member board consisting of the City Manager, City Attorney and Finance Director and is reported as if it were part of the primary government because its sole purpose is to finance and construct the City’s public buildings.

Discretely Presented Component Units

Except for the Kalamazoo Municipal Golf Association, the governing bodies of all of these component units are appointed by the Mayor of the City of Kalamazoo with approval of the City Commission.

Downtown Development Authority – The Downtown Development Authority was created as a tax-increment financing (TIF) district to correct and prevent deterioration in the downtown district, encourage historical preservation and to promote economic growth within the downtown district. The Authority’s budget is subject to approval by the City Commission.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Economic Development Corporation - The Economic Development Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving or expanding within the City so as to provide needed services and facilities to the residents of the City. In certain situations, members of the Board of Directors may be removed by a majority of the Kalamazoo City Commission.

Brownfield Redevelopment Authority - The Brownfield Redevelopment Authority was established pursuant to Act 381 of the Public Acts of 1996, as amended. The purpose of the Authority is to treat and revitalize environmentally distressed brownfield zones. The Authority is financed by tax increment financing and State grants, and has named the City of Kalamazoo as its fiscal agent. The Authority is governed by the Board of the Economic Development Corporation.

Hospital Finance Authority - The Hospital Finance Authority's purpose is to construct, acquire, reconstruct, remodel, improve, add to, enlarge, repair, own and lease hospital facilities for the use of any nonprofit hospital inside or outside the boundaries of the City of Kalamazoo, Michigan. The Authority's budget is subject to approval by the City Commission.

Local Development Finance Authority - The purpose of the LDFA is to finance improvements, through the use of tax increment financing, within the City's business and technology research park. The LDFA was established as a tax-increment financing (TIF) district in 2002 in accordance with Michigan Public Act 248 of 2000.

Metro Transit System - The Metro Transit System operates the public transportation system in the City of Kalamazoo and portions of the surrounding area. The System's budget is subject to approval by the City Commission.

Kalamazoo Municipal Golf Association - The Kalamazoo Municipal Golf Association operates the City's public golf courses. The Board of Governors consists of nine members elected from the general membership, two members elected from the Governing Board (to add diversity with respect to race and sex) and three voting ex-officio members from the City of Kalamazoo (the City Manager, Deputy City Manager, and Director of Finance). The Association is fiscally dependent on the City in that the City Commission approves the annual budget, greens fees and membership fees, and one of the three City ex-officio members must approve of any proposal to expend money for any purpose.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Complete financial statements of the individual component units, except for the Brownfield Redevelopment Authority, the Hospital Finance Authority, and Local Development Finance Authority, can be obtained from their respective administrative offices:

Downtown Development Authority

141 East Michigan Avenue
Kalamazoo, MI 49007

Economic Development Corporation

241 West South Street
Kalamazoo, MI 49007

Metro Transit System

530 South Rose
Kalamazoo, MI 49007

Kalamazoo Municipal Golf Association

4200 Lovers Lane
Kalamazoo, MI 49007

B. Government-wide and fund financial statements

Government-wide financial statements. The statements of net assets and activities report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for reimbursement-based grants that use one year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest and special assessments associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

The *Solid Waste Fund* accounts for funds provided by a special tax millage for the collection and removal of solid waste. This fund was authorized by a vote of the people authorizing a tax levy and is classified as a special revenue fund due to the limited usage of the assets.

The *Neighborhood and Community Development Fund* accounts for a variety of federal awards programs, including Community Development Block Grant, housing development, rental assistance and several other programs.

The *Building Authority Debt Service Fund* accounts for the debt service activity of the Kalamazoo Building Authority, which consists of the collection of lease payments from the Downtown Development Authority and from the general public for facilities improvements and the subsequent debt service expenditures related to the outstanding Building Authority debt issues.

The City reports the following major enterprise funds:

The *Wastewater Fund* accounts for the operation and maintenance of the sewage disposal system, capital additions and improvements to the system and retirement of revenue bonds. Financing is provided by user charges, Environmental Protection Agency grants for wastewater treatment plant expansion, state grants, and contributions from other municipalities and customers. This fund is classified as an enterprise fund because it is funded primarily through user charges.

The *Water Fund* accounts for the operation and maintenance of the water supply system, capital additions and improvements to the system and retirement of revenue bonds. Financing is provided by user charges, state grants, and contributions from other municipalities and customers. This fund is classified as an enterprise fund because it is funded primarily through user charges.

Additionally, the City reports the following fund types:

Special revenue funds. These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including capital projects or permanent funds.

Debt service funds. These funds account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Capital projects funds. These funds account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Permanent funds. These funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support specified government programs.

Enterprise funds. These funds account for those operations that are financed and operated in a manner similar to private business or where the City has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Internal service funds. These funds account for operations that provide services to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. This includes machinery, equipment and building space management services; liability, auto, and workers' compensation self-insurance; information technology services; and printing, mailing and reproduction services.

Pension trust fund. This fund accounts for the activities of the Employees' Retirement System, a defined-benefit pension plan, which accumulates resources for retirement benefit payments to qualified employees.

Private purpose trust. This fund primarily accounts for the Rabbi Trust deferred compensation program and other assets of non-profit organizations held for outside parties in a trustee capacity for purposes other than those that support the government's programs.

Agency fund. This fund accounts for taxes collected and distributed to other governments in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various function concerned.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the government's enterprise and internal service funds are charges to customers for sales and services. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the City to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Investments are stated at fair value.

2. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the long-term portion of interfund loans).

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles, as applicable.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

3. *Inventories and Prepaid Items*

Inventories are valued at cost using the first-in/first-out (FIFO) method, which approximates fair value. The costs of governmental fund-type inventories are recorded as expenditures when purchased, and are immaterial at year end.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. *Restricted Assets*

Certain revenues and resources of the City are classified as restricted assets on the balance sheet and statement of net assets because their use is limited. Proprietary fund restricted assets are held subject to bond covenants and reserved for future capital expenditures.

5. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital asset as: assets with initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. In accordance with the provisions of GASB Statement No. 34, the government has only capitalized infrastructure assets acquired or constructed since 1980.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	5-50
Buildings and building improvements	50
Water and wastewater system infrastructure	25-50
Vehicles	7-10
Office equipment	6-10
Machinery and equipment	3-10
Public infrastructure	50

6. *Compensated Absences*

Amounts of vested or accumulated vacation leave are accrued in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as “termination leave” prior to retirement.

7. *Long-term Obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

8. *Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. **Budgetary Information**

The City adopts a formal budget for the general and special revenue funds. The City Charter requires that the City Manager submit to the City Commission an estimate of revenues and contemplated expenditures for the following calendar year by December 1. An interim appropriation resolution is passed by January 1 to continue normal operations and by February 1 of each year the City Commission passes an annual appropriation resolution approving the estimated expenditures. The City Manager is authorized to transfer budgeted amounts between expenditure control accounts within a department as long as the budgeted excess of revenues and other sources over (under) expenditures and other uses stays constant. Capital outlay expenditures in excess of the greater of \$10,000 or in amounts greater than 10 percent of any project cost, interdepartmental transfers, use of contingency funds and position classification changes require prior City Commission approval.

Formal budgetary integration is employed as a management control device during the year. Supplemental appropriations were approved by the City Commission in the form of budget amendment resolutions or as part of special authorizing motions for grants, bonds or notes, the total of which was not significant in relation to the original budget appropriation valuations. Appropriations lapse at each year end, except for those approved for carry forward by the City Commission.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in all governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balance for governmental funds since they do not constitute expenditures or liabilities.

The budget has been prepared in accordance with U.S. generally accepted accounting principles (GAAP), with the exception that property tax revenues have been recognized in the year levied, even though they would not be fully available to finance operations of the current year (*see Note IV.B. for a further discussion*).

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

B. Budget/GAAP Reconciliation

The Statements of Revenue, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual are presented on the same basis of accounting used in preparing the adopted budget. The following schedule reconciles the amounts on those schedules to the Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds.

	<u>Budgetary Basis</u>	<u>Accounting Basis Difference</u>	<u>GAAP Basis</u>
General Fund:			
Deferred revenue	\$ 1,943,810	\$ 5,583,342	\$ 7,527,152
Property tax revenue	31,970,176	(206,992)	31,709,184
Fund balance, beginning of year	8,679,748	(5,322,350)	3,357,398
Fund balance, end of year	11,738,865	(5,583,342)	6,155,523
Solid Waste Special Revenue Fund:			
Deferred revenue	-	501,960	501,960
Property tax revenue	2,768,849	(12,292)	2,756,557
Fund balance, beginning of year	849,303	(489,668)	359,635
Fund balance, end of year	1,395,323	(501,960)	893,363

C. Excess of Expenditures Over Appropriations

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the City were adopted on a department level basis in the General Fund, and at the fund level for other governmental funds, which is the legal level of control.

Expenditures in the combining and individual fund financial statements have been presented at a level of detail greater than the level of legal budgetary control.

During the year ended December 31, 2006, the General Fund Public Works expenditures (\$1,143,920) exceeded the amount appropriated (\$1,113,963) by \$9,957.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

D. Deficit Fund Equity

The Public Works Equipment internal service fund had a deficit in unrestricted net assets of \$632,620 as of December 31, 2006, although its total net assets (including amounts invested in capital assets) amounted to a positive \$902,069.

The Downtown Development Authority, the Local Development Finance Authority and the Kalamazoo Municipal Golf Association component units had deficits in unrestricted net assets at December 31, 2006, of \$1,778,709, \$1,692,855 and \$36,844, respectively. For the DDA and the LDFA, these deficits existed as a result of presenting the financial statements for these component units on the full accrual basis, in accordance with GAAP. On a modified accrual fund basis, only the LDFA has a deficit fund balance, which was a planned deficit, as eligible expenditures were incurred in advance of tax increment financing revenues. The City plans to eliminate the deficit of the LDFA through future tax increment financing collections.

III. DETAILED NOTES ON ALL FUNDS

A-1. Deposits and Investments – Pooled Cash and Investments

Following is a reconciliation of deposit and investment balances (including pooled cash and investments as well as pension trust fund balances; see Note A-2) as of December 31, 2006:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Totals</u>
Statement of Net Assets			
Cash and cash equivalents	\$ 32,108,277	\$ 5,640,630	\$ 37,748,907
Investments	4,366,705	-	4,366,705
Restricted cash	4,820,362	1,503,865	6,324,227
Restricted investments	10,793,666	1,132,909	11,926,575
Investments with agent	2,122,798	-	2,122,798
Statement of Fiduciary Net Assets			
Cash and cash equivalents	13,164,833	-	13,164,833
Investments	518,895,904	-	518,895,904
Investments with agent	<u>500</u>	<u>-</u>	<u>500</u>
	<u>\$ 586,273,045</u>	<u>\$ 8,277,404</u>	<u>\$ 594,550,449</u>

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Deposits and Investments

Cash on hand	\$ 6,995
Bank deposits (checking accounts, savings accounts and CDs)	32,415,592
Investments with agent (Kalamazoo Community Foundation)	2,123,298
Investments in securities, mutual funds and similar vehicles - pool	38,677,121
Investments in securities, mutual funds and similar vehicles - pension	<u>521,327,443</u>
	<u>\$ 594,550,449</u>

Custodial Credit Risk - Deposits. For deposits, custodial credit risk is the risk, that in the event of a bank failure, the City's deposits may not be returned to the government. As of December 31, 2006, \$34,098,379 of the City's total bank balance of \$34,298,379 (total book balance was \$32,415,592) was exposed to custodial credit risk as it was uninsured and uncollateralized.

The City's banking and investment policy does not specifically address this risk, although the City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk – Investments with Agent. As permitted by State statutes, the City has placed monies for investment with the Kalamazoo Community Foundation (KCF). These monies, amounting to \$2,123,298 as of December 31, 2006, are pooled with other KCF funds and invested at the discretion of KCF, which for purposes of the City essentially functions as an external investment pool. Investments in external investment pools are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

Custodial Credit Risk - Investments. Following is a summary of investments as of December 31, 2006:

U.S. agencies	\$ 21,277,028
Commercial paper	3,428,565
Banker's acceptance	3,754,136
Equity mutual funds	4,366,705
Money market	<u>5,850,687</u>
Total	<u>\$ 38,677,121</u>

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that investment securities be held in third-party safekeeping by a designated institution and that the safekeeping agent follow the procedure of delivery *vs.* payment. As of December 31, 2006, none of the City's investments, excluding the mutual funds and money market accounts which are not subject to custodial credit risk, were exposed to risk since the securities are held in the City's name by the counterparty.

Credit Risk. As of December 31, 2006, all of the City's investments in securities of U.S. agencies and commercial paper were rated AAA and A1+ by Standard & Poor's, respectively. The City also held investments in bankers acceptances, equity mutual funds and money market accounts, which are not rated. All of the City's investments comply with its policy regarding the types of investments it may hold.

Concentration of Credit Risk. At December 31, 2006, the investment portfolio was concentrated as follows:

<u>Investment Type</u>	<u>Issuer</u>	<u>% of Portfolio</u>
U.S. agencies	Federal Home Loan Banks	20.42%
	Federal National Mortgage Association	11.64%
	Federal Home Loan Mortgage Association	22.96%

Among other provisions, the City's investment policy permits the entire portfolio to be invested in obligations of U.S. agencies with the limitation that no more than 35% may be placed with a single institution. The policy neither provides for nor prohibits the placement of funds with community foundations.

Interest Rate Risk. As of December 31, 2006, \$26,479,109 of U.S. agencies, commercial paper and bankers acceptance securities were due within one year; the remaining balance of \$1,980,620 was due within two years. The City's policy provides that the maximum weighted average maturity will be limited to 18 months.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

A-2. Deposits and Investments – Pension Trust Fund

Cash and Short-term Investments – The Pension Trust Fund (or the “System”) does not maintain any checking or other demand/time deposit accounts. Amounts reported as cash and short-term investments in the statement of plan net assets include cash and money market accounts held by the System’s investment managers. These accounts are insured by the Securities Investors Protection Act for up to \$500,000 each. The carrying amount of these accounts as of December 31, 2006 was \$2,431,539, of which \$1,431,530 was uninsured and uncollateralized.

Investments - The System is authorized by the State’s Pension Investment Act, as amended, to invest in common stocks, real estate, and various other obligations, subject to certain limitations. The System’s Investment Committee is responsible for recommending to the City Commission the investment policies and strategies, and retaining/monitoring the various investment managers, trustees, advisors, actuaries and other fiduciaries utilized by the System. The City Commission is responsible for approving the recommendations of the Investment Committee.

The System’s investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have established market values are reported at estimated fair value.

The System’s investments are held in 10 portfolios administered by five investment managers. Following is a summary of the System’s investments as of December 31, 2006:

U.S. treasuries	\$ 68,307,731
U.S. agencies	26,453,918
Corporate debt securities	29,466,392
Equity mutual funds	369,115,379
Real estate mutual funds	25,552,484
Cash and short-term investments	<u>2,431,539</u>
	<u>\$521,327,443</u>

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Credit Risk. The System's investment policy provides that its investments in bonds must be rated in the top four major grades as determined by two nationally recognized statistical rating organizations. As of December 31, 2006, the System's investments in fixed income securities were rated by Standard & Poor's and Moody's as follows:

	<u>U.S. agencies</u>	<u>Corporate debt securities</u>
Standard & Poor's		
AAA	\$ 26,453,918	\$ 11,835,443
AA	-	5,666,487
A	-	5,184,667
BBB	-	4,028,404
Not rated	-	2,751,391
	<u><u>\$ 26,453,918</u></u>	<u><u>\$ 29,466,392</u></u>
Moody's		
AAA	\$ 26,453,918	\$ 10,746,873
AA	-	6,475,898
A	-	5,854,965
BAA	-	2,994,304
Not rated	-	3,394,352
	<u><u>\$ 26,453,918</u></u>	<u><u>\$ 29,466,392</u></u>

Custodial Credit Risk. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System's investment policy does not address custodial credit risk. Although uninsured and unregistered, the System's investments are not exposed to custodial credit risk since the securities are held by the counterparty in the System's name. Investments in mutual funds and money market funds are not subject to custodial credit risk.

Concentration of Credit Risk. The System's investments are not exposed to concentration of credit risk relative to a single issuer (i.e., company or government agency) inasmuch as no holdings equal or exceed 5% or more of total investments.

The System's investment policy and State statutes provide that no more than 70% of the total investments may be in equity holdings and no more than 5% in real estate. As of December 31, 2006, the System's equity holdings accounted for 70.8% of the total investment portfolio; the System's holdings in real estate were 4.90% at December 31, 2006.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Interest Rate Risk. As of December 31, 2006, maturities of the System's debt securities were as follows:

<u>2006</u>	<u>Fair Value</u>	<u>Investment Maturities (fair value by years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
U.S. treasuries	\$ 68,307,731	\$ 1,093,257	\$ 6,687,047	\$ -	\$ 60,527,427
U.S. agencies	26,453,918	3,645,365	4,907,417	2,915,629	14,985,507
Corporate debt	29,466,392	1,182,341	14,610,529	1,698,567	11,974,955
Total debt securities	\$ 124,228,041	\$ 5,920,963	\$ 26,204,993	\$ 4,614,196	\$ 87,487,889

The System's investment policy does not address interest rate risk.

Derivatives. The System's investment policy permits the prudent use of derivatives to reduce portfolio risk and enhance investment return. Under the terms of the investment agreements, portfolio managers are required to report all derivative holdings on a quarterly basis. The Investment Committee monitors these reports to evaluate the System's exposure to credit, market and legal risk.

The portfolios managed by Jennison Associates utilize U.S. currency futures contracts, a type of derivative, to reduce overall portfolio volatility caused by interest rate risk. At December 31, 2006, the System had receivable futures contracts with a fair value of \$194,980,782 and payable futures contracts with a fair value of \$61,743,281. A cumulative loss on futures contracts amounting to \$131,474 has been recognized by the System through December 31, 2006. As of that date, a net payable balance of \$42,141 has been reported in interest and dividends receivable.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

B. Receivables and Deferred Revenue

Receivables in the primary government are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Accounts	\$ 2,927,931	\$ -
Customer accounts	-	6,345,822
Taxes	8,473,855	-
Special assessments	171,337	109,121
Interest	55,745	9,070
Due from other governments	1,472,211	-
Notes	7,070,079	1,227
Due from component units	7,387,692	18,358
Advances to component units	<u>3,782,976</u>	<u>223,925</u>
	<u>\$ 31,341,826</u>	<u>\$ 6,707,523</u>

Customer accounts receivable of the Wastewater and Water Enterprise Funds are reported net of allowances for uncollectible accounts of \$7,500 and \$28,900, respectively. Of the amounts presented above, approximately \$11 million is not expected to be collected within a period of one year.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in governmental activities were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Governmental funds			
Property taxes receivable	\$ 6,085,302	\$ -	\$ 6,085,302
Grants and contracts received in advance of meeting all eligibility requirements	-	288,644	288,644
Long-term receivables	<u>16,170,856</u>	<u>-</u>	<u>16,170,856</u>
	22,256,158	288,644	22,544,802
Internal service funds			
Other	<u>-</u>	<u>17,600</u>	<u>17,600</u>
	<u>\$ 22,256,158</u>	<u>\$ 306,244</u>	<u>\$ 22,562,402</u>

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

C. Capital Assets

Capital assets activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 29,497,851	\$ 25,000	\$ -	\$ 29,522,851
Construction in progress	10,869,410	2,616,530	(243,459)	13,242,481
Total capital assets not being depreciated	40,367,261	2,641,530	(243,459)	42,765,332
Capital assets being depreciated:				
Building & improvements	36,522,787	597,291	-	37,120,078
Land improvements	3,367,185	303,036	-	3,670,221
Machinery and equipment	10,496,856	938,735	(218,604)	11,216,987
Vehicles	11,014,951	1,185,633	(516,201)	11,684,383
Infrastructure	176,459,003	6,431,598	-	182,890,601
Total capital assets being depreciated	237,860,782	9,456,293	(734,805)	246,582,270
Accumulated depreciation:				
Building & improvements	(8,178,903)	(693,404)	-	(8,872,307)
Land improvements	(1,739,950)	(140,379)	-	(1,880,329)
Machinery and equipment	(6,261,156)	(750,324)	217,585	(6,793,895)
Vehicles	(7,720,842)	(923,357)	419,297	(8,224,902)
Infrastructure	(90,009,593)	(3,505,211)	-	(93,514,804)
Total accumulated depreciation	(113,910,444)	(6,012,675)	636,882	(119,286,237)
Total capital assets being depreciated, net	123,950,338	3,443,618	(97,923)	127,296,033
Governmental Activities capital assets, net	\$ 164,317,599	\$ 6,085,148	\$ (341,382)	\$ 170,061,365

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ 2,875,383	\$ -	\$ (9,889)	\$ 2,865,494
Construction in progress	4,492,054	5,239,533	(1,341,253)	8,390,334
Total capital assets not being depreciated	<u>7,367,437</u>	<u>5,239,533</u>	<u>(1,351,142)</u>	<u>11,255,828</u>
Capital assets being depreciated:				
Building & improvements	88,081,810	129,720	-	88,211,530
Land improvements	12,515,135	52,551	-	12,567,686
Machinery and equipment	47,488,767	1,068,752	(325,688)	48,231,831
Infrastructure	132,567,421	5,439,882	(101,361)	137,905,942
Vehicles	4,085,674	631,795	(417,160)	4,300,309
Intangible assets	649,400	858,640	-	1,508,040
Total capital assets being depreciated	<u>285,388,207</u>	<u>8,181,340</u>	<u>(844,209)</u>	<u>292,725,338</u>
Accumulated depreciation:				
Building & improvements	(30,849,394)	(1,707,798)	-	(32,557,192)
Land improvements	(6,442,724)	(370,551)	-	(6,813,275)
Machinery and equipment	(34,774,850)	(1,856,877)	321,063	(36,310,664)
Infrastructure	(46,735,147)	(2,762,017)	101,338	(49,395,826)
Vehicles	(2,963,248)	(353,480)	417,160	(2,899,568)
Intangible assets	(79,175)	(107,872)	-	(187,047)
Total accumulated depreciation	<u>(121,844,538)</u>	<u>(7,158,595)</u>	<u>839,561</u>	<u>(128,163,572)</u>
Total capital assets being depreciated, net	<u>163,543,669</u>	<u>1,022,745</u>	<u>(4,648)</u>	<u>164,561,766</u>
Business-type activities				
capital assets, net	<u><u>\$ 170,911,106</u></u>	<u><u>\$ 6,262,278</u></u>	<u><u>\$ (1,355,789)</u></u>	<u><u>\$ 175,817,594</u></u>

Depreciation expense was charged to functions/programs of the primary government as follows:

General government	\$ 318,507
Public safety (combined police & fire)	1,273,233
Community Development & Planning	14,933
Parks	19,986
Recreation	256,367
Public Works	9,417
Streets	3,505,211
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>615,021</u>
	<u><u>\$ 6,012,675</u></u>

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Depreciation of business-type activities by function:

Wastewater	\$ 4,037,279
Water	2,711,071
Other	3,960
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>406,285</u>
	<u><u>\$ 7,158,595</u></u>

D. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses in the primary government are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Accounts payable	\$ 1,635,530	\$ 2,013,619
Accrued and other liabilities	2,567,282	656,797
Due to component units	564,710	-
Due to other governments	164,297	83,720
Deposits payable	<u>1,021,512</u>	<u>787,855</u>
	<u><u>\$ 5,953,331</u></u>	<u><u>\$ 3,541,991</u></u>

E. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2006, was as follows:

	<u>Receivables</u>	<u>Payables</u>
Due to/from other funds:		
General Fund	\$ 2,852,166	\$ 2,200,269
Solid Waste	543,655	181,743
Neighborhood and Community Development	4,706	200,285
Building Authority Debt Service	241	86,653
Nonmajor governmental funds	1,128,378	1,952,204
Wastewater	879,192	3,953,434
Water	1,867,707	1,633,623
Nonmajor enterprise funds	-	173
Internal service funds	<u>6,261,656</u>	<u>3,329,317</u>
	<u><u>\$ 13,537,701</u></u>	<u><u>\$ 13,537,701</u></u>

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

	<u>Receivables</u>	<u>Payables</u>
Advances to/from other funds:		
General Fund	\$ 340,000	\$ -
Nonmajor governmental funds	7,329	7,329
Internal service funds	<u>-</u>	<u>340,000</u>
	<u>\$ 347,329</u>	<u>\$ 347,329</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. In addition, certain amounts are reported as internal balances in the statement of net assets relative to the elimination of the internal service funds.

	<u>Transfers In</u>	<u>Transfers Out</u>
Interfund transfers:		
General Fund	\$ -	\$ 4,648,630
Neighborhood and Community Development	200,000	18,149
Building Authority Debt Service	1,309,695	-
Nonmajor governmental funds	8,491,912	6,091,679
Internal service funds	<u>756,851</u>	<u>-</u>
	<u>\$ 10,758,458</u>	<u>\$ 10,758,458</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

E. Long-Term Debt

General Obligation Bonds. The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both general government and proprietary activities. These bonds are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenues. In addition, general obligation bonds have been issued to refund both general obligation and revenue bonds.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds are issued as serial bonds with varying amounts of principal maturing each year. The original amount of the general obligation bonds issued was \$89,035,000. General obligation bonds currently outstanding are as follows:

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

General Obligation Bonds

Governmental Activities:

	Issuance Date	Interest Rates	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
1992 Downtown Development	03/01/1992	5.50%-5.80%	\$ 1,650,000	\$ -	\$ 175,000	\$ 1,475,000	\$ 175,000
1993 Building Authority Parking System	03/01/1993	5.25%-5.90%	105,000	-	105,000	-	-
1993 Building Authority Parking System Refunding	06/15/1993	4.30%-5.25%	285,000	-	285,000	-	-
1993 Downtown Development Refunding	06/15/1993	4.30%-5.50%	2,090,000	-	210,000	1,880,000	225,000
1994 Building Authority General Facility Renovation	06/01/1994	4.70%-6.00%	-	-	-	-	-
1994 Building Authority Parking System	08/01/1994	4.60%-6.00%	375,000	-	375,000	-	-
1997 Building Authority Parking System Refunding	10/01/1997	3.90%-4.90%	975,000	-	-	975,000	300,000
1997 Downtown Development Refunding	10/01/1997	4.70%-5.35%	2,130,000	-	5,000	2,125,000	10,000
1998 Building Authority Refunding	11/17/1998	3.35%-5.25%	5,380,000	-	95,000	5,285,000	555,000
1998 Building Authority KMG	12/01/1998	3.80%-5.00%	1,300,000	-	75,000	1,225,000	75,000
1999 Building Authority	09/01/1999	5.13%-5.38%	985,000	-	230,000	755,000	240,000
2001 Building Authority	04/01/2001	4.00%-5.00%	3,160,000	-	95,000	3,065,000	95,000
2002 Building Authority	01/01/2002	2.00%-4.75%	850,000	-	65,000	785,000	65,000
2002 Mayor's Riverfront Environmental	08/01/2002	2.50%-4.15%	610,000	-	295,000	315,000	315,000
2003 Building Authority	01/27/2003	1.75%-3.75%	1,590,000	-	175,000	1,415,000	185,000
2004 Capital Improvement	04/27/2004	2.00%-4.70%	7,770,000	-	645,000	7,125,000	665,000
2005 Parking Ramp Bonds	04/11/2005	5.00%-5.25%	7,125,000	-	105,000	7,020,000	415,000
2005B Parking Ramp Bonds	10/12/2005	5.00%-5.25%	2,835,000	-	55,000	2,780,000	145,000
2005 Refunding Bonds	07/26/2005	5.125%-5.50%	7,725,000	-	40,000	7,685,000	40,000
2006A Building Authority Bonds	01/23/2006	4.85%-5.50%	-	2,840,000	100,000	2,740,000	45,000
2006B Building Authority Bonds	10/26/2006	4.00%-4.40%	-	4,270,000	-	4,270,000	155,000
Total General Obligation Bonds			\$ 46,940,000	\$ 7,110,000	\$ 3,130,000	\$ 50,920,000	\$ 3,705,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

Years Ending December 31	Governmental Activities	
	Principal	Interest
2007	\$ 3,705,000	\$ 2,265,179
2008	3,450,000	2,126,756
2009	3,540,000	1,981,916
2010	3,225,000	1,838,722
2011	3,300,000	1,700,958
2012 - 2016	14,125,000	6,415,091
2017 - 2021	8,830,000	3,752,864
2022 - 2026	8,450,000	1,859,248
2027 - 2031	2,295,000	248,225
Total	\$ 50,920,000	\$ 22,188,958

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Revenue Bonds. The City also issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. The original amount of revenue bonds issued was \$18,010,000 for governmental activities and \$34,125,000 for business-type activities. Revenue bonds outstanding at year end are as follows:

	Issuance Date	Interest Rates	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds							
<i>Governmental Activities:</i>							
1994 Michigan Transportation Fund	06/01/1994	4.75%-5.90%	\$ 365,000	\$ -	\$ 115,000	\$ 250,000	\$ 120,000
1996 Michigan Transportation Fund	03/01/1996	3.90%-5.10%	1,260,000	-	180,000	1,080,000	190,000
1998 Michigan Transportation Fund	04/01/1998	3.60%-4.75%	1,420,000	-	145,000	1,275,000	155,000
2000 Michigan Transportation Fund	04/24/2000	4.88%-5.13%	2,150,000	-	165,000	1,985,000	175,000
2002 Michigan Transportation Fund Refunding	04/01/2002	2.50%-4.88%	2,275,000	-	585,000	1,690,000	140,000
2004 Michigan Transportation Fund Refunding	04/27/2004	3.00%-3.70%	3,925,000	-	400,000	3,525,000	405,000
Total Governmental Activities			11,395,000	-	1,590,000	9,805,000	1,185,000
<i>Business-Type Activities:</i>							
1996 Water System	06/01/1996	5.13%-5.63%	2,830,000	-	2,610,000	220,000	220,000
2001 Wastewater System Refunding	04/01/2001	3.00%-5.00%	4,020,000	-	195,000	3,825,000	200,000
2002 Water System Refunding	06/06/2002	4.50%-4.75%	7,960,000	-	440,000	7,520,000	460,000
2002 Water System Refunding	10/23/2002	2.00%-3.88%	3,005,000	-	265,000	2,740,000	275,000
2004 Water System Refunding	04/27/2004	2.00%-4.65%	4,875,000	-	135,000	4,740,000	140,000
2006 Water System Supply and Refunding	11/29/2006	4.00%-4.25%	-	4,690,000	-	4,690,000	125,000
Total Business-Type Activities			22,690,000	4,690,000	3,645,000	23,735,000	1,420,000
Total Revenue Bonds			\$ 34,085,000	\$ 4,690,000	\$ 5,235,000	\$ 33,540,000	\$ 2,605,000

Annual debt service requirements to maturity for revenue bonds are as follows:

Years Ending December 31	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 1,185,000	\$ 398,502	\$ 1,420,000	\$ 999,310
2008	1,230,000	348,038	1,425,000	991,681
2009	1,150,000	295,002	1,485,000	937,441
2010	1,200,000	246,964	1,540,000	877,369
2011	1,260,000	195,822	1,615,000	813,861
2012 - 2016	3,780,000	342,653	8,415,000	2,949,641
2017 - 2021	-	-	4,895,000	1,231,640
2022 - 2026	-	-	2,040,000	491,870
2027 - 2031	-	-	900,000	85,095
Total	\$ 9,805,000	\$ 1,826,978	\$ 23,735,000	\$ 9,377,908

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Special Assessment Debt. The City issues special assessment limited tax bonds to provide funds for certain downtown street improvement projects. The City intends to repay this debt through collections of special assessments. However, these bonds are backed by the full faith and credit of the City and, in the event that special assessment revenues are insufficient to cover debt service expenditures, the City is obligated to make up any shortfall. Management considers the likelihood of this occurring to be extremely remote. The original amount of special assessment bonds was \$680,000. Special assessment bonds outstanding at year end are as follows:

	Issuance Date	Interest Rates	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Special Assessment Bonds							
<i>Governmental Activities:</i>							
1999 Special Assessment Limited Tax Bonds	09/01/1999	4.40%-7.00%	\$ 380,000	\$ -	\$ 45,000	\$ 335,000	\$ 50,000

Annual debt service requirements to maturity for special assessment bonds are as follows:

Years Ending December 31	Governmental Activities	
	Principal	Interest
2007	\$ 50,000	\$ 16,730
2008	50,000	14,380
2009	50,000	11,980
2010	45,000	9,530
2011	45,000	7,280
2012 - 2016	95,000	7,370
Total	\$ 335,000	\$ 67,270

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Installment Obligations. The City has entered into various long-term installment payment agreements which are similar in nature to bonds. The original amount of installment obligations issued was \$5,357,055 for governmental activities. Installment obligations outstanding at December 31, 2006, are as follows:

	Issuance Date	Interest Rates	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Installment Purchase Contracts							
<i>Governmental Activities:</i>							
1997 Fire Equipment	06/16/1997	5.60%	\$ 265,700	\$ -	\$ 129,400	\$ 136,300	\$ 136,300
2000 Cable Access	07/24/2000	5.38%	161,000	-	63,000	98,000	66,000
2002 KMG A Golf Carts	03/12/2002	4.08%	49,309	-	49,309	-	-
2005 KMG A	04/25/2005	3.85%	260,000	-	61,000	199,000	64,000
Total Installment Purchase Contracts			\$ 736,009	\$ -	\$ 302,709	\$ 433,300	\$ 266,300

Annual debt service requirements to maturity for installment obligations are as follows:

Years Ending December 31	Governmental Activities	
	Principal	Interest
2007	\$ 266,300	\$ 18,437
2008	87,000	5,374
2009	80,000	1,623
Total	\$ 433,300	\$ 25,434

Other Debt. The City has also recorded liabilities related to certain environmental matters, accumulated compensated absences and a tax tribunal payable.

Environmental matters represent the City's share of estimated costs associated with the cleanup of certain sites with soil contamination for which the City is named as a potentially responsible party.

The accumulated compensated absences represent the estimated liability to be paid to governmental fund type employees under the City's sick and vacation pay policy. Under the City's policy, employees earn sick and vacation time based on time of service with the government. For the governmental activities, compensated absences, the uninsured claim liability, and death benefits payable are generally liquidated by the insurance and benefits internal service fund. Other sundry long-term liabilities are generally liquidated by the General Fund.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Advance and Current Refundings. In prior years, the City defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. During 2006, the City partially defeased the 1996 Water System Revenue Bonds, having an outstanding principal amount of \$2,620,000.

The City's current year refundings were undertaken to reduce total debt service expenditures over the next 10 years by \$297,856, and resulted in economic gains of \$271,823.

Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At December 31, 2006, \$12,458,581 of bonds outstanding from current and prior year refundings are considered defeased.

No Commitment Debt. Excluded from the statement of net assets are bonds issued under the Industrial Development Revenue Bond Act of 1963, as amended, which authorizes municipalities to acquire and lease industrial sites, buildings and equipment. Also excluded are revenue bonds issued by the Economic Development Corporation and Hospital Finance Authority to acquire and lease property to third parties. The revenue bonds issued are payable solely from the net revenue derived from the respective leases and are not a general obligation of the City. After these bonds are issued, all financial activity is taken over by the paying agent. The bonds and related lease contracts, amounting to \$310,815,000, are not reflected in the City's financial statements. Information regarding the status of each bond issue, including possible default, must be obtained from the paying agent or other knowledgeable sources.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Changes in Long-Term Debt. Long-term liability activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government					
Governmental Activities					
General obligation bonds	\$ 46,940,000	\$ 7,110,000	\$ 3,130,000	\$ 50,920,000	\$ 3,705,000
Revenue bonds	11,395,000	-	1,590,000	9,805,000	1,185,000
Special assessment bonds	380,000	-	45,000	335,000	50,000
Installment purchase contracts	736,009	-	302,709	433,300	266,300
Compensated absences	5,393,838	2,320,157	2,261,280	5,452,715	681,589
Public safety comp time	365,061	9,196	-	374,257	-
Environmental matters	784,606	-	74,595	710,011	5,000
Tax tribunal payable	119,045	-	119,045	-	-
Uninsured claim liability	3,464,005	436,315	-	3,900,320	1,853,632
Death benefits payable	252,045	11,784	-	263,829	-
Add: unamortized bond premium	173,669	23,732	-	197,401	-
Total Governmental Activities	\$ 70,003,278	\$ 9,911,184	\$ 7,522,629	\$ 72,391,833	\$ 7,746,521
Business-Type Activities					
Revenue bonds	\$ 22,690,000	\$ 4,690,000	\$ 3,645,000	\$ 23,735,000	\$ 1,420,000
Compensated absences	1,879,774	1,003,503	853,076	2,030,201	253,775
Total Business-Type Activities	\$ 24,569,774	\$ 5,693,503	\$ 4,498,076	\$ 25,765,201	\$ 1,673,775

G. Short-Term Debt

The City issued and repaid \$6,000,000 of tax revenue anticipation notes during the year ended December 31, 2006. The purpose of this short-term debt is to provide liquidity for governmental operations financed by property taxes, which are collected throughout the year.

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (i.e., workers' compensation), as well as medical and death benefits provided to employees. The City has purchased commercial insurance for excess claims for workers' compensation, medical claims, general and auto liability, auto physical damage and property loss claims. The City is primarily self-insured for workers' compensation, medical claims, general liability and property damage claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

The City estimates the liability for its self-insured coverages and includes both those claims that have been reported as well as those that have not yet been reported. These estimates are prepared with the assistance of the City's third-party administrators for claims management and are recorded in the Insurance and Benefits internal service fund. The long-term portion of the workers' compensation liability has been discounted at a 6 percent present value factor. Changes in the estimated liability are as follows:

	<u>2006</u>	<u>2005</u>
Estimated liability, beginning of year	\$ 3,716,050	\$ 3,976,821
Estimated claims incurred, including changes in estimates	17,400,081	16,448,454
Claim payments	<u>(16,951,982)</u>	<u>(16,709,225)</u>
Estimated liability, end of year	<u>\$ 4,164,149</u>	<u>\$ 3,716,050</u>

B. Property Taxes

Property taxes attach as an enforceable lien on property as of January 1 and are levied on July 1. The City bills and collects its own property taxes for general governmental services, solid waste collection and downtown development and also collects taxes for the Metro Transit System, Kalamazoo County, Kalamazoo Valley Community College, the District Library and various school districts. Collections of property taxes and remittances of them to the appropriate authorities are accounted for in the Tax Collector's Agency Fund.

The City is permitted by State law to levy taxes up to \$20.00 per \$1,000 of assessed valuation of property for general governmental services other than the payment of principal and interest on long-term debt. The authority to tax the residents for the payment of principal and interest on long-term debt is obtained when the debt is approved by a vote of the people. The City's current year tax rate was the maximum \$19.1606 per \$1,000 of assessed valuation for general operations (after applying the Headlee constitutional rollback adjustment).

The City is currently levying \$1.75 per \$1,000 of assessed valuation for solid waste collection. State laws allow an additional nonvoted solid waste levy of \$1.65 per \$1,000 of assessed valuation.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

The Metro Transit System is permitted by P.A. 55 of the Public Acts of 1963, as amended, to levy a tax to assist in the operation of the transit system. During the current year, the System levied a voted millage of \$0.9943 per \$1,000 of assessed valuation.

The Downtown Development Authority is permitted by P.A. 197 of Michigan to levy taxes up to \$2.00 per \$1,000 of assessed valuation of property in the downtown district. The Authority's current year tax rate was the maximum \$2.00 per \$ 1,000 of assessed valuation.

Taxpayers may elect to pay their tax bills in 12 equal monthly installments beginning on July 1 and on the first day of each of the next 11 months. As a result, for those taxpayers electing the installment payment plan, up to one-half of their property tax levy is collected after the fiscal year end. Because a portion of those taxes are due and collected more than 60 days after year end, they are not susceptible to accrual. Accordingly, those amounts are recorded as deferred revenue as of December 31 and then recognized as revenue in the subsequent year.

For budgeting purposes, the taxes levied in the current year are intended to finance the operations of the current year. Therefore, the Schedules of Revenue, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Budgetary Basis) and Actual include the full amount of the current year tax levy as revenue of the current year, to be consistent with the budget presentation.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

C. Contingent Liabilities

Lawsuits

The City is a defendant in various legal actions arising in the normal course of its activities including certain discrimination cases on file with the Equal Employment Opportunity Commission and the Michigan Department of Civil Rights. In the opinion of the City Attorney and management, the potential uninsured liability that may result from these actions should not exceed amounts either reserved in the Insurance and Benefits Fund (an internal service fund) or included in funds maintained by the City's claims administrators.

Environmental

The City of Kalamazoo has identified a number of sites within its boundaries that are in need of environmental remediation. Some are privately-held properties, and some are owned by the County and/or the City of Kalamazoo. The City of Kalamazoo has been named as a Potentially-Responsible Party (PRP) by the U.S. Environmental Protection Agency (EPA) in two such sites: the Cork Street Landfill and the Auto Ion site. The City has also entered into cleanup agreements, although not named as a PRP, for two other sites. Based on currently-available information, the City has recorded liabilities for the net present value of estimated response costs for these sites in the amount of \$710,011 in the government-wide statements. The City has set aside \$867,651 in its Cork Street Landfill construction fund to cover the estimated net present value of costs associated with that site. The landfills do not accept municipal waste as defined by the EPA; therefore, the Government Accounting Standard Board rules on closure and post-closure care costs do not apply.

The City has entered into trust agreements for three of these sites. It acts as Executive Agent for the Cork Street Landfill Trust, the other two trusts being administered by other parties. The Cork Street Landfill Trust is recorded in the Cork Street Landfill Cap Construction Fund. In 2000, the City issued \$1.3 million in environmental bonds for a portion of its share of the costs for the Cork Street landfill. The proceeds of the bonds were placed in the trust; however, the City is solely responsible for the repayment of those bonds, the outstanding balance of which is recorded in the Statement of Net Assets.

The City also has identified a number of additional environmental issues that need to be addressed in the next two to four years. In most of these environmental issues, the City has not been identified as a PRP and, in all of the issues, the City has not determined the ultimate exposure, if any, for these sites. Accordingly, no provision for any loss that may result from the resolution of these matters has been recorded in the financial statements.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Commitments

The City is obligated for construction contracts relating to various construction projects in the amount of \$6,527,524. These commitments are not susceptible to accrual. Accordingly, no liabilities have been recorded in the basic financial statements. However, \$3,343,147 of these commitments were made by governmental funds and are, therefore, included within the reservations of fund balance for encumbrances.

D. Postemployment Benefits

The City provides health care benefits to all full-time employees upon retirement, in accordance with its labor contracts. Currently, 1,534 retirees are eligible to receive these benefits. The City includes pre-Medicare retirees and their dependents in its self-insured health care plan. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as they become due; during the year, this amounted to \$4,773,507 (net of \$459,659 of retiree contributions).

E. Defined Benefit Pension Plan

Plan Description

The Employees' Retirement System is the administrator of a single-employer public employees defined benefit retirement system that covers all employees of the City. The Plan was originally established by City ordinance on February 5, 1952 and is maintained as a Pension Trust Fund in the accompanying financial statements. Plan benefit provisions were established and may be amended under the authority of City ordinances. The system provides retirement benefits, as well as death and disability benefits. The system issues a publicly available financial report that includes financial statements and required supplementary information, which may be obtained by writing to the City of Kalamazoo Employees' Retirement System, 241 W. South Street, Kalamazoo, MI 49007.

Summary of Significant Accounting Policies

The financial statements of the Employees' Retirement System are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The City's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair values.

Funding Policy

The contribution requirements of plan members and the City are established and may be amended by the City Commission. Plan members are required to contribute at rates ranging from 1.0% to 6.5% of their annual covered salary, depending on union affiliation. The City is required to contribute at an actuarially determined rate; no employer contributions were required for 2006.

Annual Pension Cost and Net Pension Obligation

The annual pension cost and net pension obligation (NPO) for the current year were as follows:

Annual required contribution (ARC)	\$ -
Interest on net pension obligation	-
Adjustment to annual required contribution	-
Annual pension cost	-
Contributions made	-
 Increase (decrease) in net pension obligation	 -
 Net pension obligation - Beginning of year	 -
 Net pension obligation - End of year	 <u>\$ -</u>

The annual required contributions for 2006 were determined as part of an actuarial valuation of the System as of December 31, 2005, using the individual attained age normal cost actuarial funding method. The actuarial assumptions included: (a) a nominal rate of return on investments, net of expenses, of 7.5% per year compounded annually; (b) projected salary increases of 4.0% per year compounded annually, attributable to inflation; (c) additional projected salary increases ranging from 0.0% to 8.0% per year, depending on age and service, attributable to seniority/merit; and (d) the assumption that pension benefits will increase after retirement from 1.0% to 2.0% per year depending on the bargaining unit, age, and the date of retirement. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis. The remaining amortization period at December 31, 2006, the date of the latest actuarial valuation, was ten years for the System.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the fair value of investments over a five-year period.

Three-Year Trend Information

<u>Years Ended December 31,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
2004	\$ -	-%	\$ -
2005	-	-	-
2006	-	-	-

GASB Statement 25 required supplementary information is presented after the notes to the financial statements section of this report.

F. Restatements

Beginning fund balance of the Neighborhood and Community Development Fund and beginning net assets of governmental activities were increased by \$170,220 to properly recognize assets held for resale.

G. Subsequent Events

Subsequent to year end, the City issued \$6,000,000 in Tax Anticipation Notes. The debt issue was dated and available for delivery on January 29, 2007.

* * * * *

CITY OF KALAMAZOO, MICHIGAN
Employees' Retirement System
Required Supplementary Information

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (B)	Overfunded AAL (OAAL) (A-B)	Funded Ratio (A/B)	Covered Payroll (C)	OAAL as A % of Covered Payroll
12/31/1997	\$ 242,709,209	\$ 161,366,282	\$ 81,342,927	150.4%	\$ 35,791,434	227.3%
12/31/1998	267,250,249	167,726,504	99,523,745	159.3%	35,607,350	279.5%
12/31/1999	303,750,495	192,167,206	111,583,289	158.1%	37,541,170	297.2%
12/31/2000	331,521,519	208,070,230	123,451,289	159.3%	39,377,238	313.5%
12/31/2001	349,206,708	220,302,430	128,904,278	158.5%	41,595,437	309.9%
12/31/2002	348,677,897	230,979,927	117,697,970	151.0%	40,316,918	291.9%
12/31/2003	361,205,383	245,919,424	115,285,959	146.9%	40,914,264	281.8%
12/31/2004	390,615,277	265,080,190	125,535,087	147.4%	41,989,819	299.0%
12/31/2005	422,565,761	294,416,007	128,149,754	143.5%	40,944,435	313.0%
12/31/2006	463,280,966	312,101,938	151,179,028	148.4%	42,164,958	358.5%

Schedule of Employer Contributions

Year Ended December 31	Annual Required Contributions	Percentage Contributed
1997	\$ 840,966	100%
1998	-	-
1999	-	-
2000	-	-
2001	-	-
2002	-	-
2003	-	-
2004	-	-
2005	-	-
2006	-	-

CITY OF KALAMAZOO, MICHIGAN
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2006

	Special Revenue Funds	Debt Service Funds	Capital Projects	Permanent Funds	Total Nonmajor Governmental Funds
<u>ASSETS</u>					
Assets					
Cash and cash equivalents	\$ 3,100,287	\$ 159,329	\$ 7,132,814	\$ 180,336	\$ 10,572,766
Investments	-	-	-	4,366,705	4,366,705
Receivables:					
Notes	674,253	-	-	-	674,253
Special assessments	8,459	131,141	18,464	-	158,064
Accrued interest	25,121	-	4,022	-	29,143
Other	632,983	210,480	302,508	270	1,146,241
Due from other funds	983,882	14,000	130,496	-	1,128,378
Due from component units	69,420	199,000	100,000	-	368,420
Due from other governments	944,333	-	-	-	944,333
Advances to other funds	-	-	7,329	-	7,329
Advances to component units	3,782,976	-	-	-	3,782,976
Prepaid items and other assets	7,505	-	-	-	7,505
Restricted cash	-	-	1,955,462	-	1,955,462
Investments with agents	19,300	-	1,095,310	1,008,188	2,122,798
<u>TOTAL ASSETS</u>	\$ 10,248,519	\$ 713,950	\$ 10,746,405	\$ 5,555,499	\$ 27,264,373
<u>LIABILITIES AND FUND BALANCE</u>					
Liabilities					
Accounts payable	\$ 384,899	\$ 14,000	\$ 143,887	\$ -	\$ 542,786
Accrued and other liabilities	48,106	-	-	4,491	52,597
Due to other funds	1,322,095	53	433,056	197,000	1,952,204
Due to other governments	124,845	-	2,689	-	127,534
Advances from other funds	7,329	-	-	-	7,329
Deposits payable	2,250	-	927,765	-	930,015
Deferred revenue	892,971	540,621	25,286	-	1,458,878
Total liabilities	2,782,495	554,674	1,532,683	201,491	5,071,343
Fund balance					
Reserved for:					
Encumbrances	848,556	-	984,065	-	1,832,621
Prepaid items	7,505	-	-	-	7,505
Long-term receivables	-	-	200,000	-	200,000
Debt-financed projects	-	-	24,593	-	24,593
Advances to other funds	-	-	7,329	-	7,329
Advances to component units	3,782,976	-	100,000	-	3,882,976
Cemetery perpetual care	-	-	-	1,735,160	1,735,160
Recreational activities	-	-	-	1,008,188	1,008,188
Unreserved:					
Designated for subsequent years' expenditures	801,667	-	6,712,043	-	7,513,710
Undesignated	2,025,320	159,276	1,185,692	2,610,660	5,980,948
Total fund balance	7,466,024	159,276	9,213,722	5,354,008	22,193,030
<u>TOTAL LIABILITIES AND FUND BALANCE</u>	\$ 10,248,519	\$ 713,950	\$ 10,746,405	\$ 5,555,499	\$ 27,264,373

CITY OF KALAMAZOO, MICHIGAN
Combining Statement of Revenue, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended December 31, 2006

	Special Revenue Funds	Debt Service Funds	Capital Projects	Permanent Funds	Total Nonmajor Governmental Funds
Revenue					
Property taxes and special assessments	\$ 3,955	\$ 39,241	\$ -	\$ -	\$ 43,196
Intergovernmental revenue	6,066,296	-	-	-	6,066,296
Charges for services	200,650	-	-	36,099	236,749
Fines and forfeits	196,191	-	-	-	196,191
Interest and dividends	263,377	22,239	326,177	183,513	795,306
Net investment earnings	-	-	-	660,122	660,122
Local contributions	-	-	138,854	8,478	147,332
Other revenue	1,784,776	192,063	568,811	-	2,545,650
Total revenue	8,515,245	253,543	1,033,842	888,212	10,690,842
Expenditures					
Current expenditures:					
Public safety	1,065,263	-	-	-	1,065,263
Economic Development	65,017	-	-	-	65,017
Community Development & Planning	14,447	-	-	-	14,447
Recreation	373,398	-	-	5,624	379,022
Streets	9,580,546	-	-	-	9,580,546
Cemeteries	533,553	-	-	21,585	555,138
Debt service:					
Principal	-	2,877,709	-	-	2,877,709
Interest and fiscal charges	-	783,299	-	-	783,299
Capital outlay	-	-	5,125,701	-	5,125,701
Total expenditures	11,632,224	3,661,008	5,125,701	27,209	20,446,142
Excess (deficiency) of revenue over expenditures	(3,116,979)	(3,407,465)	(4,091,859)	861,003	(9,755,300)
Other financing sources (uses)					
Transfers in	3,777,564	3,404,735	1,309,613	-	8,491,912
Transfers out	(3,378,552)	-	(2,335,878)	(377,249)	(6,091,679)
Bond proceeds	-	-	7,110,000	-	7,110,000
Bond premium	-	-	23,732	-	23,732
Total other financing sources (uses)	399,012	3,404,735	6,107,467	(377,249)	9,533,965
Net change in fund balances	(2,717,967)	(2,730)	2,015,608	483,754	(221,335)
Fund balance, beginning of year	10,183,991	162,006	7,198,114	4,870,254	22,414,365
Fund balance, end of year	\$ 7,466,024	\$ 159,276	\$ 9,213,722	\$ 5,354,008	\$ 22,193,030

NONMAJOR SPECIAL REVENUE FUNDS

Major Streets - This fund accounts for the construction, maintenance and repairs of all major streets. Revenues received include state-shared gas and weight taxes, local contributions, etc. This is a special revenue fund because it is used to control the expenditures of motor fuel taxes, which are earmarked by law and the state constitution for street and highway purposes, and is required by Act 51 of the Public Acts of 1951, as amended.

Local Streets - This fund accounts for the construction, maintenance and repairs of all local streets. Financing is provided by state-shared gas and weight taxes, local contributions, etc. This is a special revenue fund because it is used to control the expenditures of motor fuel taxes, which are earmarked by law and the state constitution for street and highway purposes, and is required by Act 51 of the Public Acts of 1951, as amended.

Cemeteries - This fund is used to account for the earmarked revenues set aside for the purpose of operating the City's cemeteries. This fund is classified as a Special Revenue Fund because of the comparatively limited usage of the assets in this fund.

Grants and Donations - This fund is used to account for various programs funded by grants and/or donations that are not accounted for in the other special revenue funds.

Economic Development Programs - This fund is used to account for monies appropriated by the City Commission for economic development activities, such as business loans and loans to the Economic Development Corporation component unit.

Drug Enforcement - This fund is used to account for proceeds of forfeited property seized in connection with a violation of the controlled substance statutes, Public Act 135 of 1985 (MCLA 333,7521-7524). This fund is classified as a Special Revenue Fund because of the limited usage of its assets.

CITY OF KALAMAZOO, MICHIGAN
Combining Balance Sheet
Nonmajor Special Revenue Funds
December 31, 2006

	Major Streets	Local Streets	Cemeteries
<u>ASSETS</u>			
Assets			
Cash and cash equivalents	\$ 297,797	\$ 376,173	\$ 478
Receivables:			
Notes	-	-	-
Special assessments	-	8,459	-
Accrued interest	-	8,685	-
Other	602,447	-	4,784
Due from other funds	73,734	405,603	196,215
Due from component units	69,420	-	-
Due from other governments	669,594	172,898	-
Advances to component units	1,636,454	-	-
Prepaid items and other assets	1,124	6,381	-
Investments with agents	-	-	-
<u>TOTAL ASSETS</u>	<u>\$ 3,350,570</u>	<u>\$ 978,199</u>	<u>\$ 201,477</u>
<u>LIABILITIES AND FUND BALANCE</u>			
Liabilities			
Accounts payable	\$ 286,591	\$ 39,560	\$ 1,434
Accrued and other liabilities	14,875	1,901	1,261
Due to other funds	520,253	395,531	67,904
Due to other governments	-	-	-
Advances from other funds	-	7,329	-
Deposits payable	-	-	-
Deferred revenue	2,213	16,831	2,494
Total liabilities	823,932	461,152	73,093
Fund balance			
Reserved for:			
Encumbrances	782,490	55,939	5,000
Prepaid items	1,124	6,381	-
Advances to component units	1,636,454	-	-
Unreserved:			
Designated for subsequent years' expenditures	-	432,398	-
Undesignated	106,570	22,329	123,384
Total fund balance	2,526,638	517,047	128,384
<u>TOTAL LIABILITIES AND FUND BALANCE</u>	<u>\$ 3,350,570</u>	<u>\$ 978,199</u>	<u>\$ 201,477</u>

Grants and Donations	Economic Development Programs	Drug Enforcement	Total
\$ 217,925	\$ 1,346,430	\$ 861,484	\$ 3,100,287
-	674,253	-	674,253
-	-	-	8,459
-	16,436	-	25,121
659	25,093	-	632,983
306,535	-	1,795	983,882
-	-	-	69,420
101,841	-	-	944,333
-	2,146,522	-	3,782,976
-	-	-	7,505
19,300	-	-	19,300
\$ 646,260	\$ 4,208,734	\$ 863,279	\$ 10,248,519
\$ 25,278	\$ -	\$ 32,036	\$ 384,899
4,317	-	25,752	48,106
330,103	40	8,264	1,322,095
-	124,845	-	124,845
-	-	-	7,329
-	-	2,250	2,250
155,651	715,782	-	892,971
515,349	840,667	68,302	2,782,495
5,127	-	-	848,556
-	-	-	7,505
-	2,146,522	-	3,782,976
-	-	369,269	801,667
125,784	1,221,545	425,708	2,025,320
130,911	3,368,067	794,977	7,466,024
\$ 646,260	\$ 4,208,734	\$ 863,279	\$ 10,248,519

CITY OF KALAMAZOO, MICHIGAN
Combining Statement of Revenue, Expenditures and
Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended December 31, 2006

	Major Streets	Local Streets	Cemeteries
Revenue			
Property taxes and special assessments	\$ -	\$ 3,955	\$ -
Intergovernmental revenue	4,480,526	1,153,481	-
Charges for services	-	-	173,288
Fines and forfeits	-	-	-
Interest revenue	117,405	25,512	1,051
Other revenue	1,351,624	407	3
	<hr/>	<hr/>	<hr/>
Total revenue	5,949,555	1,183,355	174,342
	<hr/>	<hr/>	<hr/>
Expenditures			
Current expenditures:			
Public safety (combined police and fire)	-	-	-
Cemeteries	-	-	533,553
Economic Development	-	-	-
Community Development & Planning	-	-	-
Streets	6,353,482	3,227,064	-
Recreation	-	-	-
	<hr/>	<hr/>	<hr/>
Total expenditures	6,353,482	3,227,064	533,553
	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenue over expenditures	(403,927)	(2,043,709)	(359,211)
	<hr/>	<hr/>	<hr/>
Other financing sources (uses)			
Transfers in	1,016,816	2,002,551	377,249
Transfers out	(2,618,709)	(759,843)	-
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	(1,601,893)	1,242,708	377,249
	<hr/>	<hr/>	<hr/>
Net change in fund balances	(2,005,820)	(801,001)	18,038
	<hr/>	<hr/>	<hr/>
Fund balance, beginning of year	4,532,458	1,318,048	110,346
	<hr/>	<hr/>	<hr/>
Fund balance, end of year	<u>\$ 2,526,638</u>	<u>\$ 517,047</u>	<u>\$ 128,384</u>

Grants and Donations	Economic Development Programs	Drug Enforcement	Total
\$ -	\$ -	\$ -	3,955
418,577	-	13,712	6,066,296
-	27,362	-	200,650
-	-	196,191	196,191
5,246	88,028	26,135	263,377
317,461	94,967	20,314	1,784,776
741,284	210,357	256,352	8,515,245
466,699	-	598,564	1,065,263
-	-	-	533,553
25,000	40,017	-	65,017
14,447	-	-	14,447
-	-	-	9,580,546
373,398	-	-	373,398
879,544	40,017	598,564	11,632,224
(138,260)	170,340	(342,212)	(3,116,979)
130,948	250,000	-	3,777,564
-	-	-	(3,378,552)
130,948	250,000	-	399,012
(7,312)	420,340	(342,212)	(2,717,967)
138,223	2,947,727	1,137,189	10,183,991
\$ 130,911	\$ 3,368,067	\$ 794,977	\$ 7,466,024

CITY OF KALAMAZOO, MICHIGAN
Schedule of Revenue, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
Major Streets Fund
For the Year Ended December 31, 2006

	Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue			
Intergovernmental revenue:			
State trunkline maintenance	\$ 250,000	\$ 113,922	\$ (136,078)
Gas and weight tax distribution	4,300,000	4,124,532	(175,468)
Other state revenue	439,200	242,072	(197,128)
Interest	304,879	117,405	(187,474)
Other revenue	2,775,220	1,351,624	(1,423,596)
Total revenue	8,069,299	5,949,555	(2,119,744)
Expenditures			
Public services:			
Administration	455,133	436,398	18,735
Repair	565,575	579,571	(13,996)
Maintenance	743,605	463,283	280,322
Pavement painting	62,408	79,631	(17,223)
Traffic signals	572,692	269,689	303,003
Traffic signs	67,357	75,321	(7,964)
Construction	7,239,618	4,449,589	2,790,029
Total expenditures	9,706,388	6,353,482	3,352,906
Excess (deficiency) of revenue over expenditures	(1,637,089)	(403,927)	1,233,162
Other financing sources (uses)			
Transfers in:			
General Fund	-	1,016,816	1,016,816
Transfers out:			
Local Streets	(1,000,000)	(1,000,000)	-
Michigan Transportation Fund Debt Service Fund	-	(1,618,709)	(1,618,709)
Total other financing sources (uses)	(1,000,000)	(1,601,893)	(601,893)
Net change in fund balance	(2,637,089)	(2,005,820)	631,269
Fund balance, beginning of year	4,532,458	4,532,458	-
Fund balance, end of year	\$ 1,895,369	\$ 2,526,638	\$ 631,269

CITY OF KALAMAZOO, MICHIGAN
Schedule of Revenue, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
Local Streets Fund
For the Year Ended December 31, 2006

	Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue			
Special assessments	\$ 8,000	\$ 3,955	\$ (4,045)
Intergovernmental revenue:			
Gas and weight tax distribution	1,235,000	1,153,481	(81,519)
Interest	10,000	25,512	15,512
Other revenue	500	407	(93)
	<hr/>	<hr/>	<hr/>
Total revenue	1,253,500	1,183,355	(70,145)
	<hr/>	<hr/>	<hr/>
Expenditures			
Public services:			
Administration	431,893	423,944	7,949
Repair	563,302	567,574	(4,272)
Maintenance	478,720	253,781	224,939
Pavement painting	22,675	3,915	18,760
Signs	36,430	25,989	10,441
Construction	2,011,636	1,951,861	59,775
	<hr/>	<hr/>	<hr/>
Total expenditures	3,544,656	3,227,064	317,592
	<hr/>	<hr/>	<hr/>
Excess (deficiency) of expenditures over revenue	(2,291,156)	(2,043,709)	247,447
	<hr/>	<hr/>	<hr/>
Other financing sources (uses)			
Transfers in:			
General Fund	-	1,002,551	1,002,551
Major Streets	-	1,000,000	1,000,000
Transfers out:			
Michigan Transportation Fund Debt Service Fund	-	(438,131)	(438,131)
Capital Improvement Projects Fund	-	(321,712)	(321,712)
Issuance of long-term debt	1,000,000	-	(1,000,000)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	1,000,000	1,242,708	242,708
	<hr/>	<hr/>	<hr/>
Net change in fund balance	(1,291,156)	(801,001)	490,155
	<hr/>	<hr/>	<hr/>
Fund balance, beginning of year	1,318,048	1,318,048	-
	<hr/>	<hr/>	<hr/>
Fund balance, end of year	\$ 26,892	\$ 517,047	\$ 490,155
	<hr/>	<hr/>	<hr/>

CITY OF KALAMAZOO, MICHIGAN
Schedule of Revenue, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
Cemeteries Fund
For the Year Ended December 31, 2006

	Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue			
Charges for services - public services	\$ 175,600	\$ 173,288	\$ (2,312)
Interest	250	1,051	801
Other rev	-	3	3
	<hr/>	<hr/>	<hr/>
Total revenue	175,850	174,342	(1,508)
	<hr/>	<hr/>	<hr/>
Expenditures			
Cemeteries:			
Maintenance	192,031	201,990	(9,959)
Burials	361,068	331,563	29,505
	<hr/>	<hr/>	<hr/>
Total expenditures	553,099	533,553	19,546
	<hr/>	<hr/>	<hr/>
Deficiency of expenditures over revenue	(377,249)	(359,211)	18,038
	<hr/>	<hr/>	<hr/>
Other financing sources			
Transfers in:			
Cemeteries' Perpetual Care	109,256	377,249	267,993
	<hr/>	<hr/>	<hr/>
Net change in fund balance	(267,993)	18,038	286,031
	<hr/>	<hr/>	<hr/>
Fund balance, beginning of year	110,346	110,346	-
	<hr/>	<hr/>	<hr/>
Fund balance (deficit), end of year	\$ (157,647)	\$ 128,384	\$ 286,031
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

CITY OF KALAMAZOO, MICHIGAN
Schedule of Revenue, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
Grants and Donations Fund
For the Year Ended December 31, 2006

	Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue			
Intergovernmental revenue:			
Federal grants	\$ 676,793	\$ 333,620	\$ (343,173)
State grants	94,870	84,957	(9,913)
Interest revenue	-	5,246	5,246
Local contributions	419,406	317,461	(101,945)
	<hr/>	<hr/>	<hr/>
Total revenue	1,191,069	741,284	(449,785)
	<hr/>	<hr/>	<hr/>
Expenditures			
Public safety (combined police and fire)	887,013	466,699	420,314
Economic development	25,000	25,000	-
Community development	41,906	14,447	27,459
Parks and recreation	495,452	373,398	122,054
	<hr/>	<hr/>	<hr/>
Total expenditures	1,449,371	879,544	569,827
	<hr/>	<hr/>	<hr/>
Excess (deficiency) of expenditures over revenue	(258,302)	(138,260)	120,042
	<hr/>	<hr/>	<hr/>
Other financing sources			
Transfers in:			
General Fund	123,290	112,799	(10,491)
Neighborhood and Community Development	4,747	18,149	13,402
	<hr/>	<hr/>	<hr/>
Total other financing sources	128,037	130,948	2,911
	<hr/>	<hr/>	<hr/>
Net change in fund balance	(130,265)	(7,312)	122,953
	<hr/>	<hr/>	<hr/>
Fund balance, beginning of year	138,223	138,223	-
	<hr/>	<hr/>	<hr/>
Fund balance, end of year	<u>\$ 7,958</u>	<u>\$ 130,911</u>	<u>\$ 122,953</u>

CITY OF KALAMAZOO, MICHIGAN
Schedule of Revenue, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
Economic Development Programs Fund
For the Year Ended December 31, 2006

	Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue			
Charges for service	\$ -	\$ 27,362	\$ 27,362
Interest	-	88,028	88,028
Other revenue	-	94,967	94,967
Total revenue	-	210,357	210,357
Expenditures			
Economic Development:			
Small Business Revolving Loan	-	40,000	(40,000)
Economic Opportunity Fund	247,047	17	247,030
Total expenditures	247,047	40,017	207,030
Excess (deficiency) of revenue over expenditures	(247,047)	170,340	417,387
Other financing sources			
Transfers in from General Fund	-	250,000	250,000
Net change in fund balance	(247,047)	420,340	667,387
Fund balance, beginning of year	2,947,727	2,947,727	-
Fund balance, end of year	\$ 2,700,680	\$ 3,368,067	\$ 667,387

CITY OF KALAMAZOO, MICHIGAN
Schedule of Revenue, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
Drug Enforcement Fund
For the Year Ended December 31, 2006

	Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue			
Intergovernmental revenue - federal grants	\$ 30,000	\$ 13,712	\$ (16,288)
Fines and forfeits	200,000	196,191	(3,809)
Interest	30,000	26,135	(3,865)
Other revenue	30,000	20,314	(9,686)
Total revenue	290,000	256,352	(33,648)
Expenditures			
Public safety (combined police and fire)	691,397	598,564	92,833
Excess (deficiency) of revenue over expenditures	(401,397)	(342,212)	59,185
Fund balance, beginning of year	1,137,189	1,137,189	-
Fund balance, end of year	\$ 735,792	\$ 794,977	\$ 59,185

NONMAJOR DEBT SERVICE FUNDS

Special Assessments - This fund is used to account for the debt service activity of the Special Assessments bond issue. Financing is provided through the collection of special assessments from benefiting property owners.

Michigan Transportation Fund - This fund is used to account for the debt service activity of the Michigan Transportation Fund bond issues. Financing is provided by transfers from the Major and Local Streets Special Revenue Funds.

Installment Purchase Contracts - This fund is used to account for the debt service activity of the City's installment obligations. Financing is provided through transfers from other funds and facility rentals.

Mayors' Riverfront Park - This fund is used to account for debt service activity, both public and private, for the debt issued for the City's Mayors' Riverfront Park.

CITY OF KALAMAZOO, MICHIGAN
Combining Balance Sheet
Nonmajor Debt Service Funds
December 31, 2006

	Special Assessments	Michigan Transportation Fund	Installment Purchase Contracts
<u>ASSETS</u>			
Assets			
Cash and cash equivalents	\$ 159,329	\$ -	\$ -
Receivables:			
Special assessments	131,141	-	-
Other	-	-	98,000
Due from other funds	-	-	14,000
Due from component units	-	-	199,000
<u>TOTAL ASSETS</u>	<u>\$ 290,470</u>	<u>\$ -</u>	<u>\$ 311,000</u>
<u>LIABILITIES AND FUND BALANCE</u>			
Liabilities			
Accounts payable	\$ -	\$ -	\$ 14,000
Due to other funds	53	-	-
Deferred revenue	131,141	-	297,000
Total liabilities	131,194	-	311,000
Fund balance			
Unreserved, undesignated	159,276	-	-
<u>TOTAL LIABILITIES AND FUND BALANCE</u>	<u>\$ 290,470</u>	<u>\$ -</u>	<u>\$ 311,000</u>

Mayors' Riverfront Park		Total
\$	-	\$ 159,329
	-	131,141
	112,480	210,480
	-	14,000
	-	199,000
\$	112,480	\$ 713,950

\$	-	\$ 14,000
	-	53
	112,480	540,621
	112,480	554,674
	-	159,276
\$	112,480	\$ 713,950

CITY OF KALAMAZOO, MICHIGAN
Combining Statement of Revenue, Expenditures and Changes in Fund Balances
Nonmajor Debt Service Funds
For the Year Ended December 31, 2006

	Special Assessments	Michigan Transportation Fund	Installment Purchase Contracts
Revenue			
Special assessments	\$ 39,241	\$ -	\$ -
Interest	22,239	-	-
Other revenue	-	-	192,063
	<hr/>	<hr/>	<hr/>
Total revenue	61,480	-	192,063
	<hr/>	<hr/>	<hr/>
Expenditures			
Debt service:			
Principal	45,000	1,590,000	947,709
Interest and fiscal charges	19,210	466,840	272,421
	<hr/>	<hr/>	<hr/>
Total expenditures	64,210	2,056,840	1,220,130
	<hr/>	<hr/>	<hr/>
Deficiency of revenue over expenditures	(2,730)	(2,056,840)	(1,028,067)
	<hr/>	<hr/>	<hr/>
Other financing sources			
Transfers in:			
Major Streets Fund	-	1,618,709	-
Local Streets Fund	-	438,131	321,712
Capital Improvements Project Fund	-	-	706,355
	<hr/>	<hr/>	<hr/>
Total other financing sources	-	2,056,840	1,028,067
	<hr/>	<hr/>	<hr/>
Net change in fund balances	(2,730)	-	-
	<hr/>	<hr/>	<hr/>
Fund balance, beginning of year	162,006	-	-
	<hr/>	<hr/>	<hr/>
Fund balance, end of year	<u>\$ 159,276</u>	<u>\$ -</u>	<u>\$ -</u>

Mayors' Riverfront Park	Total
\$ - \$	39,241
-	22,239
-	192,063
-	253,543
295,000	2,877,709
24,828	783,299
319,828	3,661,008
(319,828)	(3,407,465)
-	1,618,709
-	759,843
319,828	1,026,183
319,828	3,404,735
-	(2,730)
-	162,006
\$ - \$	159,276

NONMAJOR CAPITAL PROJECTS FUNDS

Cork Street Landfill Cap Construction - This fund accounts for earmarked revenue set aside for post closure care and monitoring costs associated with the Cork Street Landfill. Revenue sources from prior years included transfers from other funds and contributions from outside parties identified as potentially responsible parties.

Capital Improvements Projects - This fund accounts for earmarked revenue set aside for public improvements of a major nature. Revenue sources include General Fund transfers, grants from other units of government, private contributions and bond proceeds.

Building Authority Justice Facilities - This fund accounts for earmarked revenue set aside for public improvements associated with justice facilities.

CITY OF KALAMAZOO, MICHIGAN
Combining Balance Sheet
Nonmajor Capital Projects Funds
December 31, 2006

	Cork Street Landfill Cap Construction	Capital Improvements Projects	Building Authority Justice Facilities	Total
<u>ASSETS</u>				
Assets				
Cash and cash equivalents	\$ -	\$ 7,108,201	\$ 24,613	\$ 7,132,814
Receivables:				
Special assessments	-	18,464	-	18,464
Accrued interest	4,022	-	-	4,022
Other	3,691	298,817	-	302,508
Due from other funds	-	130,496	-	130,496
Due from component units	-	100,000	-	100,000
Advances to other funds	-	7,329	-	7,329
Restricted cash	1,955,462	-	-	1,955,462
Investments with agents	-	1,095,310	-	1,095,310
<u>TOTAL ASSETS</u>	\$ 1,963,175	\$ 8,758,617	\$ 24,613	\$ 10,746,405
<u>LIABILITIES AND FUND BALANCE</u>				
Liabilities				
Accounts payable	\$ -	\$ 143,887	\$ -	\$ 143,887
Due to other funds	160,718	272,318	20	433,056
Due to other governments	-	2,689	-	2,689
Deposits payable	927,765	-	-	927,765
Deferred revenue	7,041	18,245	-	25,286
Total liabilities	1,095,524	437,139	20	1,532,683
Fund balance				
Reserved for:				
Encumbrances	-	984,065	-	984,065
Long-term receivables	-	200,000	-	200,000
Debt-financed projects	-	-	24,593	24,593
Advances to other funds	-	7,329	-	7,329
Non-current due from component unit	-	100,000	-	100,000
Unreserved:				
Designated for subsequent years' expenditures	-	6,712,043	-	6,712,043
Undesignated	867,651	318,041	-	1,185,692
Total fund balance	867,651	8,321,478	24,593	9,213,722
<u>TOTAL LIABILITIES AND FUND BALANCE</u>	\$ 1,963,175	\$ 8,758,617	\$ 24,613	\$ 10,746,405

CITY OF KALAMAZOO, MICHIGAN
Combining Statement of Revenue, Expenditures and Changes in Fund Balances
Nonmajor Capital Projects Funds
For the Year Ended December 31, 2006

	Cork Street Landfill Cap Construction	Capital Improvements Projects	Building Authority Justice Facilities	Total
Revenue				
Interest	\$ 47,689	\$ 277,424	\$ 1,064	\$ 326,177
Local contributions	6,153	132,701	-	138,854
Other revenue	-	568,811	-	568,811
Total revenue	53,842	978,936	1,064	1,033,842
Expenditures				
Capital outlay:				
General services	272,695	4,137,461	32	4,410,188
Public safety	-	53,967	-	53,967
Public works	-	379,878	-	379,878
Parks and recreation	-	210,004	-	210,004
Other	-	71,664	-	71,664
Total expenditures	272,695	4,852,974	32	5,125,701
Excess (deficiency) of revenue over expenditures	(218,853)	(3,874,038)	1,032	(4,091,859)
Other financing sources (uses)				
Transfers in	-	1,309,613	-	1,309,613
Transfers out	-	(2,335,878)	-	(2,335,878)
Bond proceeds	-	7,110,000	-	7,110,000
Bond premium	-	23,732	-	23,732
Total other financing sources (uses)	-	6,107,467	-	6,107,467
Net change in fund balances	(218,853)	2,233,429	1,032	2,015,608
Fund balance, beginning of year	1,086,504	6,088,049	23,561	7,198,114
Fund balance, end of year	\$ 867,651	\$ 8,321,478	\$ 24,593	\$ 9,213,722

NONMAJOR PERMANENT FUNDS

Cemetery Perpetual Care - This fund is used to account for money held in trust for the perpetual care of graves in the City cemeteries. Revenues consist of interest earnings from the investments, gain on sale of investments and charges for services.

Recreational Endowment - This fund is used to account for monies accumulated for the eventual endowment of recreation activities. Revenues consist of donations and interest earnings of the endowment fund.

CITY OF KALAMAZOO, MICHIGAN
Combining Balance Sheet
Nonmajor Permanent Funds
December 31, 2006

	Cemetery Perpetual Care Fund	Recreation Endowment Funds	Total
<hr/>			
<u>ASSETS</u>			
Assets			
Cash and cash equivalents	\$ 180,336	\$ -	\$ 180,336
Investments	4,366,705	-	4,366,705
Accounts receivable	270	-	270
Investments with agents	-	1,008,188	1,008,188
<hr/>			
<u>TOTAL ASSETS</u>	\$ 4,547,311	\$ 1,008,188	\$ 5,555,499
<hr/>			
<u>LIABILITIES AND FUND BALANCE</u>			
Liabilities			
Accrued and other liabilities	\$ 4,491	\$ -	\$ 4,491
Due to other funds	197,000	-	197,000
<hr/>			
Total liabilities	201,491	-	201,491
<hr/>			
Fund balance			
Reserved for:			
Cemetery perpetual care	1,735,160	-	1,735,160
Recreational activities	-	1,008,188	1,008,188
Unreserved, undesignated	2,610,660	-	2,610,660
<hr/>			
Total fund balance	4,345,820	1,008,188	5,354,008
<hr/>			
<u>TOTAL LIABILITIES AND FUND BALANCE</u>	\$ 4,547,311	\$ 1,008,188	\$ 5,555,499
<hr/>			

CITY OF KALAMAZOO, MICHIGAN
Combining Statement of Revenue, Expenditures and Changes in Fund Balances
Nonmajor Permanent Funds
For the Year Ended December 31, 2006

	Cemetery Perpetual Care Fund	Recreation Endowment Funds	Total
Revenue			
Charges for services	\$ 36,099	\$ -	\$ 36,099
Interest and rent	183,513	-	183,513
Net investment earnings	540,650	119,472	660,122
Local contributions	-	8,478	8,478
Total revenue	760,262	127,950	888,212
Expenditures			
Current expenditures:			
Recreation	-	5,624	5,624
Cemeteries	21,585	-	21,585
Total expenditures	21,585	5,624	27,209
Excess of revenues over expenditures	738,677	122,326	861,003
Other financing uses			
Transfers out	(377,249)	-	(377,249)
Net change in fund balance	361,428	122,326	483,754
Fund balance, beginning of year	3,984,392	885,862	4,870,254
Fund balance, end of year	\$ 4,345,820	\$ 1,008,188	\$ 5,354,008

INTERNAL SERVICE FUNDS

Engineering Fund - This fund is used to account for the operations of the City's Engineering Department. Financing is provided through user charges.

Printing Services Fund - This fund is used to record the operations of printing and mailing services. Financing is provided by reimbursements from operating funds for materials and services rendered.

City-Wide Maintenance Fund – This fund is used to account for buildings and grounds maintenance operations for the City's various properties. User fees are charged to various funds and departments.

Management Information Systems Fund - This fund is used to record the operations of the management information systems department, which includes procurement and maintenance of equipment and computing support for informational needs of the City. Financing is provided by reimbursement from user service charges.

Public Works Equipment Fund - This fund is used to account for the procurement and maintenance of equipment to be used on various public work projects. Revenues are provided through vehicle and equipment rental charges and maintenance service billings. This fund also accounts for the administration and engineering of streets, storm sewers, parks and sidewalks. User funds and departments are billed to recover costs.

Insurance and Benefits Fund - This fund is used to account for payment of approved insurance claims, public liability, hospitalization insurance, workers' compensation, pension contributions, postemployment benefits, etc. The City is primarily self-insured and finances its insurance payments through budgeted transfers from other funds.

Public Utilities Equipment Fund - This fund is used to account for the procurement and maintenance of equipment to be used by the Wastewater and Water Departments. Revenues are provided through vehicle and equipment rental charges and maintenance service billings.

CITY OF KALAMAZOO, MICHIGAN
Combining Statement of Net Assets
Internal Service Funds
December 31, 2006

	Governmental Activities			
	Engineering	Printing Services	City-Wide Maintenance	Management Information Systems
Assets				
Current assets:				
Cash and cash equivalents	\$ 561	\$ 539	\$ 776	\$ 587,956
Other receivables	5,798	-	2,607	2,712
Due from other funds	1,128,140	44,519	446,158	1,190,463
Due from component units	-	-	-	23,583
Inventories	-	-	-	-
Prepaid items and other assets	230	-	-	-
Total current assets	1,134,729	45,058	449,541	1,804,714
Noncurrent assets:				
Restricted cash	-	-	-	-
Capital assets	-	-	-	688,067
Total noncurrent assets	-	-	-	688,067
Total assets	1,134,729	45,058	449,541	2,492,781
Liabilities				
Current liabilities:				
Accounts payable	2,009	606	31,797	106,682
Accrued and other liabilities	39,982	-	17,713	17,969
Due to other funds	1,079,037	44,452	393,206	19,637
Due to component units	-	-	-	30
Advance from other funds	-	-	-	-
Deferred revenue	-	-	-	17,600
Current portion of compensated absences	-	-	-	6,065
Current portion of long-term debt	-	-	-	-
Total current liabilities	1,121,028	45,058	442,716	167,983
Noncurrent liabilities:				
Compensated absences payable	-	-	-	42,453
Employee death benefits payable	-	-	-	-
Uninsured claim liability	-	-	-	-
Total noncurrent liabilities	-	-	-	42,453
Total liabilities	1,121,028	45,058	442,716	210,436
Net assets				
Invested in capital assets	-	-	-	688,067
Restricted for asset replacement	-	-	-	1,594,278
Unrestricted (deficit)	13,701	-	6,825	-
Total net assets	\$ 13,701	\$ -	\$ 6,825	\$ 2,282,345

			Business-type Activities	
Public Works Equipment	Insurance and Benefits	Subtotal Governmental Activities	Public Utilities Equipment	Total
\$ 1,089	\$ 6,155,401	\$ 6,746,322	\$ 715	\$ 6,747,037
55,472	18,577	85,166	-	85,166
774,146	2,258,841	5,842,267	419,389	6,261,656
3,406	112,811	139,800	-	139,800
182,710	-	182,710	38,424	221,134
-	-	230	-	230
1,016,823	8,545,630	12,996,495	458,528	13,455,023
-	-	-	824,627	824,627
1,534,689	-	2,222,756	1,522,431	3,745,187
1,534,689	-	2,222,756	2,347,058	4,569,814
2,551,512	8,545,630	15,219,251	2,805,586	18,024,837
13,772	10,306	165,172	111,007	276,179
45,480	430,551	551,695	5,045	556,740
1,507,783	112,088	3,156,203	173,114	3,329,317
-	-	30	-	30
-	340,000	340,000	-	340,000
-	-	17,600	-	17,600
10,301	-	16,366	4,704	21,070
-	1,853,632	1,853,632	-	1,853,632
1,577,336	2,746,577	6,100,698	293,870	6,394,568
72,107	-	114,560	32,929	147,489
-	263,829	263,829	-	263,829
-	2,046,688	2,046,688	-	2,046,688
72,107	2,310,517	2,425,077	32,929	2,458,006
1,649,443	5,057,094	8,525,775	326,799	8,852,574
1,534,689	-	2,222,756	1,522,431	3,745,187
-	-	1,594,278	824,627	2,418,905
(632,620)	3,488,536	2,876,442	131,729	3,008,171
\$ 902,069	\$ 3,488,536	\$ 6,693,476	\$ 2,478,787	\$ 9,172,263

CITY OF KALAMAZOO, MICHIGAN
Combining Statement of Revenue, Expenses
and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended December 31, 2006

	Governmental Activities			
	Engineering	Printing Services	City-Wide Maintenance	Management Information Systems
Operating revenue				
Charges for services	\$ 1,831,890	\$ 7,255	\$ 1,235,502	\$ 2,366,380
Operating expenses				
Operation and maintenance	1,757,631	4,961	1,235,504	1,962,069
Risk management	-	-	-	-
Depreciation	-	-	-	183,111
Total operating expenses	1,757,631	4,961	1,235,504	2,145,180
Operating income (loss)	74,259	2,294	(2)	221,200
Non-operating revenue				
Interest income	-	-	-	41,365
Gain (loss) on disposal of capital assets	-	2,852	-	-
Total non-operating revenue	-	2,852	-	41,365
Net income (loss) before transfers	74,259	5,146	(2)	262,565
Transfers				
Transfers in	-	26,461	-	-
Net income (loss)	74,259	31,607	(2)	262,565
Net assets (deficit), beginning of year	(60,558)	(31,607)	6,827	2,019,780
Net assets (deficit), end of year	\$ 13,701	\$ -	\$ 6,825	\$ 2,282,345

			Business-type Activities	
Public Works Equipment	Insurance and Benefits	Subtotal Governmental Activities	Public Utilities Equipment	Total
\$ 2,048,471	\$ 18,709,315	\$ 26,198,813	\$ 1,152,140	\$ 27,350,953
1,689,976	-	6,650,141	867,932	7,518,073
-	17,400,081	17,400,081	-	17,400,081
431,910	-	615,021	406,285	1,021,306
2,121,886	17,400,081	24,665,243	1,274,217	25,939,460
(73,415)	1,309,234	1,533,570	(122,077)	1,411,493
3	171,203	212,571	34,940	247,511
27,638	-	30,490	146,886	177,376
27,641	171,203	243,061	181,826	424,887
(45,774)	1,480,437	1,776,631	59,749	1,836,380
-	730,390	756,851	-	756,851
(45,774)	2,210,827	2,533,482	59,749	2,593,231
947,843	1,277,709	4,159,994	2,419,038	6,579,032
\$ 902,069	\$ 3,488,536	\$ 6,693,476	\$ 2,478,787	\$ 9,172,263

CITY OF KALAMAZOO, MICHIGAN
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended December 31, 2006

	Governmental Activities			
	Engineering	Printing Services	City-Wide Maintenance	Management Information Systems
Cash flows from operating activities				
Cash received from providing interfund services	\$ 1,029,908	\$ (8,598)	\$ 1,046,902	\$ 2,027,190
Cash payments to suppliers for goods and services	(122,934)	(22,073)	(588,459)	(1,456,541)
Cash payments to employees for services	(929,410)	(56)	(485,591)	(504,167)
Net cash provided by (used in) operating activities	(22,436)	(30,727)	(27,148)	66,482
Cash flows from non-capital financing activities				
Transfers in	-	26,461	-	-
Cash flows from capital and related financing activities				
Purchases of capital assets	-	-	-	(508,333)
Sale of capital assets	-	2,852	-	-
Net cash provided by (used in) capital and related financing activities	-	2,852	-	(508,333)
Cash flows from investing activities				
Interest received	-	-	-	41,365
Net increase (decrease) in cash and cash equivalents	(22,436)	(1,414)	(27,148)	(400,486)
Cash and cash equivalents, beginning of year	22,997	1,953	27,924	988,442
Cash and cash equivalents, end of year	<u>\$ 561</u>	<u>\$ 539</u>	<u>\$ 776</u>	<u>\$ 587,956</u>
Statement of net assets classification of cash and cash equivalents				
Cash and cash equivalents	\$ 561	\$ 539	\$ 776	\$ 587,956
Restricted cash	-	-	-	-
Total cash and cash equivalents	<u>\$ 561</u>	<u>\$ 539</u>	<u>\$ 776</u>	<u>\$ 587,956</u>

			Business-type Activities	
Public Works Equipment	Insurance and Benefits	Subtotal Governmental Activities	Public Utilities Equipment	Total
\$ 1,780,876	\$ 17,461,507	\$ 23,337,785	\$ 876,071	\$ 24,213,856
(529,348)	(17,687,097)	(20,406,452)	(479,238)	(20,885,690)
(756,920)	-	(2,676,144)	(190,779)	(2,866,923)
494,608	(225,590)	255,189	206,054	461,243
-	730,390	756,851	-	756,851
(524,465)	-	(1,032,798)	(611,994)	(1,644,792)
28,657	-	31,509	151,416	182,925
(495,808)	-	(1,001,289)	(460,578)	(1,461,867)
3	171,203	212,571	34,940	247,511
(1,197)	676,003	223,322	(219,584)	3,738
2,286	5,479,398	6,523,000	1,044,926	7,567,926
\$ 1,089	\$ 6,155,401	\$ 6,746,322	\$ 825,342	\$ 7,571,664
\$ 1,089	\$ 6,155,401	\$ 6,746,322	\$ 715	\$ 6,747,037
-	-	-	824,627	824,627
\$ 1,089	\$ 6,155,401	\$ 6,746,322	\$ 825,342	\$ 7,571,664

(Continued...)

CITY OF KALAMAZOO, MICHIGAN
Combining Statement of Cash Flows
Internal Service Funds (Concluded)
For the Year Ended December 31, 2006

	Governmental Activities			
	Engineering	Printing Services	City-Wide Maintenance	Management Information Systems
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 74,259	\$ 2,294	\$ (2)	\$ 221,200
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation	-	-	-	183,111
Changes in assets and liabilities:				
Receivables	7,951	-	2,502	(805)
Due from other funds	(809,933)	(19,583)	(191,102)	(324,324)
Due from component units	-	3,730	-	(14,061)
Inventories	-	12,786	-	-
Prepaid items and other assets	675	-	-	225
Accounts payable	(4,738)	293	13,757	(4,629)
Accrued and other liabilities	(2,212)	(372)	941	(1,484)
Due to other funds	711,562	(29,851)	146,756	7,035
Due to component units	-	(24)	-	30
Compensated absences payable	-	-	-	184
Employee death benefits payable	-	-	-	-
Uninsured claim liability	-	-	-	-
Net cash provided by (used in) operating activities	\$ (22,436)	\$ (30,727)	\$ (27,148)	\$ 66,482

			Business-type Activities		
Public Works Equipment	Insurance and Benefits	Sub-total Governmental Activities	Public Utilities Equipment	Total	
\$ (73,415)	\$ 1,309,234	\$ 1,533,570	\$ (122,077)	\$ 1,411,493	
431,910	-	615,021	406,285	1,021,306	
(7,841)	(284)	1,523	-	1,523	
(267,527)	(1,191,879)	(2,804,348)	(276,069)	(3,080,417)	
7,773	(55,645)	(58,203)	-	(58,203)	
(37,375)	-	(24,589)	(4,543)	(29,132)	
-	-	900	-	900	
(88,991)	(148,692)	(233,000)	68,538	(164,462)	
375	37,896	35,144	1,858	37,002	
523,839	(624,319)	735,022	131,066	866,088	
-	-	6	-	6	
5,860	-	6,044	996	7,040	
-	11,784	11,784	-	11,784	
-	436,315	436,315	-	436,315	
<u>\$ 494,608</u>	<u>\$ (225,590)</u>	<u>\$ 255,189</u>	<u>\$ 206,054</u>	<u>\$ 461,243</u>	

AGENCY FUND

Tax Collector's Fund - This fund is used to account for tax collections which are held by the City in an agency capacity. The collections are then transferred to the City General Fund and to other governmental units on a timely distribution basis.

CITY OF KALAMAZOO, MICHIGAN
Statement of Changes in Assets and Liabilities
Agency Fund
For the Year Ended December 31, 2006

	Balance December 31, 2005	Additions	Deletions	Balance December 31, 2006
<u>TAX COLLECTOR'S</u>				
Assets				
Cash and cash equivalents	\$ 1,557,088	\$ 87,128,339	\$ 78,006,778	\$ 10,678,649
Taxes receivable	35,975,419	174,929,025	167,811,315	43,093,129
Other receivables	3,491,170	140,568	3,629,501	2,237
	<hr/>			
Total assets	\$ 41,023,677	\$ 262,197,932	\$ 249,447,594	\$ 53,774,015
	<hr/>			
Liabilities				
Accounts payable	\$ 2,126,546	\$ 35,733,617	\$ 37,855,344	\$ 4,819
Due to component units	-	1,870	-	1,870
Due to other governments	38,897,131	226,462,445	211,592,250	53,767,326
	<hr/>			
Total liabilities	\$ 41,023,677	\$ 262,197,932	\$ 249,447,594	\$ 53,774,015
	<hr/>			

CITY OF KALAMAZOO, MICHIGAN
Statement of Net Assets / Governmental Fund Balance Sheet
Downtown Development Authority Component Unit
December 31, 2006

	General Fund	Adjustments	Statement of Net Assets
Assets			
Cash and cash equivalents	\$ 207,528	\$ -	\$ 207,528
Receivables, net:			
Taxes	2,053,473	572,282	2,625,755
Other	162,544	-	162,544
Due from primary government	18,933	-	18,933
Prepays	54,576	-	54,576
Restricted cash	1,503,865	-	1,503,865
Capital assets, net	-	295,701	295,701
	<hr/>	<hr/>	<hr/>
Total assets	\$ 4,000,919	867,983	4,868,902
	<hr/>	<hr/>	<hr/>
Liabilities			
Accounts payable	\$ 200,091	-	200,091
Accrued liabilities	-	40,260	40,260
Due to primary government	60,450	5,580,000	5,640,450
Deferred/unearned revenue	108,774	-	108,774
Long-term liabilities:			
Due within one year	-	307,785	307,785
Due in more than one year	-	350,251	350,251
	<hr/>	<hr/>	<hr/>
Total liabilities	369,315	6,278,296	6,647,611
	<hr/>	<hr/>	<hr/>
Fund balance / net assets			
Fund balance:			
Reserved for prepaids	54,576	(54,576)	-
Unreserved, undesignated	3,577,028	(3,577,028)	-
	<hr/>	<hr/>	<hr/>
Total fund balance	3,631,604	(3,631,604)	-
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balance	\$ 4,000,919		
	<hr/>		
Net assets:			
Invested in capital assets, net of related debt		289,513	289,513
Unrestricted (deficit)		(2,068,222)	(2,068,222)
		<hr/>	<hr/>
Total net assets (deficit)		\$ (1,778,709)	\$ (1,778,709)
		<hr/>	<hr/>

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of Fund Balance of the
Governmental Fund to Net Assets
Downtown Development Authority Component Unit
December 31, 2006

Fund balance - governmental fund	\$ 3,631,604
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Amounts reported in the statement of net assets are different because:

Capital assets are not financial resources, and therefore not reported in the governmental fund.

Add: capital assets, net	295,701
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Because the focus of the governmental fund is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental fund, and thus are not included in fund balance.

Add: deferred property taxes	572,282
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Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the governmental fund.

Subtract: long-term debt payable	(658,036)
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Subtract: accrued interest on long-term debt	(40,260)
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Subtract: long-term due to primary government	(5,580,000)
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Net assets (deficit)	<u><u>\$ (1,778,709)</u></u>
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CITY OF KALAMAZOO, MICHIGAN
Statement of Activities / Governmental Fund Revenue,
Expenditures, and Changes in Fund Balance
Downtown Development Authority Component Unit
For the Year Ended December 31, 2006

	General Fund	Adjustments	Statement of Activities
Expenditures / expenses	\$ 7,228,604	\$ (551,156)	\$ 6,677,448
Program revenues			
Charges for services	2,470,120	-	2,470,120
Operating grants, contributions, and restricted interest	255,983	-	255,983
Capital grants and contributions	74,210	-	74,210
Total program revenues	2,800,313	-	2,800,313
Net program (expense) revenue	(4,428,291)	551,156	(3,877,135)
General revenues			
Property taxes	3,005,407	403,954	3,409,361
Unrestricted investment earnings	96,068	-	96,068
Total general revenues	3,101,475	403,954	3,505,429
Change in fund balance / net assets	(1,326,816)	955,110	(371,706)
Fund balances / net assets (deficit):			
Beginning of year	4,958,420	(6,365,423)	(1,407,003)
End of year	\$ 3,631,604	\$ (5,410,313)	\$ (1,778,709)

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of Governmental Fund Revenue, Expenditures
and Changes in Fund Balances to Changes in Net Assets
Downtown Development Authority Component Unit
For the Year Ended December 31, 2006

Net change in fund balance - governmental fund	\$ (1,326,816)
--	----------------

Amounts reported in the statement of activities are different because:

The governmental fund reports capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Subtract: depreciation expense	(74,757)
--------------------------------	----------

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental fund, but rather are deferred to the following fiscal year.

Add: net change in property tax revenues	403,954
--	---------

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities	623,185
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental fund.

Subtract: change in accrued interest	2,728
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Change in net assets	<div style="border-top: 1px solid black; border-bottom: 3px double black; padding: 2px 0;">\$ (371,706)</div>
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CITY OF KALAMAZOO, MICHIGAN
Statement of Net Assets / Governmental Fund Balance Sheet
Economic Development Corporation Component Unit
December 31, 2006

	General Fund	Adjustments	Statement of Net Assets
Assets			
Cash and cash equivalents	\$ 79,357	\$ -	\$ 79,357
Notes receivable	1,535,627	-	1,535,627
Total assets	<u>\$ 1,614,984</u>	-	<u>1,614,984</u>
Liabilities			
Accrued liabilities	\$ 2,001	-	2,001
Due to primary government	308	-	308
Advance from primary government	1,435,627	-	1,435,627
Deferred revenue	100,000	(100,000)	-
Total liabilities	1,537,936	(100,000)	1,437,936
Fund balance / net assets			
Fund balance:			
Unreserved, undesignated	77,048	(77,048)	-
Total liabilities and fund balance	<u>\$ 1,614,984</u>	(177,048)	<u>1,437,936</u>
Net assets			
Unrestricted		<u>\$ 177,048</u>	<u>\$ 177,048</u>

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of Fund Balance of the
Governmental Fund to Net Assets
Economic Development Corporation Component Unit
December 31, 2006

Fund balance - governmental fund	\$ 77,048
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Amounts reported in the statement of net assets are different because:

Because the focus of the governmental fund is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental fund, and thus are not included in fund balance.

Add: deferred notes receivable	<u>100,000</u>
Net assets	<u><u>\$ 177,048</u></u>

CITY OF KALAMAZOO, MICHIGAN
Statement of Activities / Governmental Fund Revenue,
Expenditures, and Changes in Fund Balance
Economic Development Corporation Component Unit
For the Year Ended December 31, 2006

	General Fund	Adjustments	Statement of Activities
Expenditures / expenses	\$ 80,767	\$ -	\$ 80,767
Program revenues			
Operating grants, contributions, and restricted interest	91,784	-	91,784
Net (expense) revenue	11,017	-	11,017
General revenues			
Unrestricted investment earnings	1,966	-	1,966
Change in fund balance / net assets	12,983	-	12,983
Fund balances / net assets:			
Beginning of year	64,065	100,000	164,065
End of year	\$ 77,048	\$ 100,000	\$ 177,048

CITY OF KALAMAZOO, MICHIGAN
Statement of Net Assets / Governmental Fund Balance Sheet
Brownfield Redevelopment Authority Component Unit
December 31, 2006

	General Fund	Adjustments	Statement of Net Assets
Assets			
Cash and cash equivalents	\$ 1,559,571	\$ -	\$ 1,559,571
Receivables, net:			
Notes	710,895	-	710,895
Due from other governments	240,251	-	240,251
Due from primary government	-	3,933	3,933
Taxes	154,280	-	154,280
	<hr/>		<hr/>
Total assets	\$ 2,664,997	3,933	2,668,930
	<hr/>		
Liabilities			
Account payable	\$ 11,480	-	11,480
Accrued liabilities	5,074	-	5,074
Due to primary government	1,284	-	1,284
Advance from primary government	710,895	-	710,895
Deferred/unearned revenue	95,753	(16,981)	78,772
	<hr/>		<hr/>
Total liabilities	824,486	(16,981)	807,505
	<hr/>		
Fund balance / net assets			
Fund balance:			
Unreserved, undesignated	1,840,511	(1,840,511)	-
	<hr/>		<hr/>
Total fund balance	1,840,511	(1,840,511)	-
	<hr/>		<hr/>
Total liabilities and fund balance	\$ 2,664,997		
	<hr/>		
Net assets			
Unrestricted		\$ 1,861,425	\$ 1,861,425
		<hr/>	<hr/>

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of Fund Balance of the
Governmental Fund to Net Assets
Brownfield Redevelopment Authority Component Unit
December 31, 2006

Fund balance - governmental fund	\$ 1,840,511
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Amounts reported in the statement of net assets are different because:

Because the focus of the governmental fund is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental fund, and thus are not included in fund balance.

Add: deferred notes receivable	16,981
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Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. A portion of the net revenue (expense) of certain internal service funds is allocated to the Authority and reported in the statement of activities.

Add: net operating gain from component unit activities accounted for in governmental internal service funds	<u>3,933</u>
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Net assets	<u><u>\$ 1,861,425</u></u>
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CITY OF KALAMAZOO, MICHIGAN
Statement of Activities / Governmental Fund Revenue,
Expenditures, and Changes in Fund Balance
Brownfield Redevelopment Authority Component Unit
For the Year Ended December 31, 2006

	General Fund	Adjustments	Statement of Activities
Expenditures / expenses	\$ 796,328	\$ (1,190)	\$ 795,138
Program revenues			
Intergovernmental revenue	306,906		306,906
Operating grants, contributions, and restricted interest	514,200	-	514,200
Total program revenues	821,106		821,106
Net (expense) revenue	24,778	1,190	25,968
General revenues			
Property taxes	358,028	4,818	362,846
Unrestricted investment earnings	43,058	-	43,058
Proceeds / gain from the sale of capital assets	2,500	-	2,500
Total general revenues	403,586	4,818	408,404
Change in net assets	428,364	6,008	434,372
Fund balances / net assets:			
Beginning of year	1,412,147	14,906	1,427,053
End of year	\$ 1,840,511	\$ 20,914	\$ 1,861,425

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of Governmental Fund Revenue, Expenditures
and Changes in Fund Balance to Changes in Net Assets
Brownfield Redevelopment Authority Component Unit
For the Year Ended December 31, 2006

Net change in fund balance - governmental fund	\$	428,364
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Amounts reported in the statement of activities are different because:

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental fund, but rather are deferred to the following fiscal year.

Add: net change in notes receivable		4,818
-------------------------------------	--	-------

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. A portion of the net revenue (expense) of certain internal service funds is allocated to the Authority and reported in the statement of activities.

Add: net operating gain from component unit activities accounted for in governmental internal service funds		1,190
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Change in net assets	\$	434,372
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CITY OF KALAMAZOO, MICHIGAN
Statement of Net Assets / Governmental Fund Balance Sheet
Local Development Finance Authority Component Unit
December 31, 2006

	General Fund	Adjustments	Statement of Net Assets
Assets			
Cash and cash equivalents	\$ 156,904	\$ -	\$ 156,904
Taxes receivable	92,189	-	92,189
Due from primary government	969	133	1,102
	<hr/>		
Total assets	<u>\$ 250,062</u>	133	250,195
Liabilities			
Due to primary government	\$ 82,671	\$ -	\$ 82,671
Advance from primary government	1,860,379	-	1,860,379
Deferred revenue	40,730	(40,730)	-
	<hr/>		
Total liabilities	1,983,780	(40,730)	1,943,050
Fund balance / net assets			
Fund balance:			
Unreserved, undesignated	(1,733,718)	1,733,718	-
	<hr/>		
Total liabilities and fund balance	<u>\$ 250,062</u>		
Net assets			
Unrestricted (deficit)		\$ (1,692,855)	\$ (1,692,855)

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of Fund Balance of the
Governmental Fund to Net Assets
Local Development Finance Authority Component Unit
December 31, 2006

Fund balance - governmental fund	\$ (1,733,718)
----------------------------------	----------------

Amounts reported in the statement of net assets are different because:

Because the focus of the governmental fund is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental fund, and thus are not included in fund balance.

Add: deferred notes receivable	40,730
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Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. A portion of the net assets of certain internal service funds are allocated to the Authority and included in the statement of net assets.

Add: net assets allocated to the Authority from governmental activity internal service funds	<u>133</u>
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Net assets (deficit)	<u><u>\$ (1,692,855)</u></u>
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CITY OF KALAMAZOO, MICHIGAN
Statement of Activities / Governmental Fund Revenue,
Expenditures, and Changes in Fund Balance
Local Development Finance Authority Component Unit
For the Year Ended December 31, 2006

	General Fund	Adjustments	Statement of Activities
Expenditures / expenses	\$ 268,951	\$ -	\$ 268,951
General revenues			
Property taxes	305,887	32,563	338,450
Change in net assets	36,936	32,563	69,499
Fund balances / net assets:			
Beginning of year	(1,770,654)	8,300	(1,762,354)
End of year	<u>\$ (1,733,718)</u>	<u>\$ 40,863</u>	<u>\$ (1,692,855)</u>

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of Governmental Fund Revenue, Expenditures
and Changes in Fund Balance to Changes in Net Assets
Local Development Finance Authority Component Unit
For the Year Ended December 31, 2006

Net change in fund balance - governmental fund	\$ 36,936
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Amounts reported in the statement of activities are different because:

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental fund, but rather are deferred to the following fiscal year.

Add: net change in deferred property taxes	<u>32,563</u>
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Change in net assets	<u><u>\$ 69,499</u></u>
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CITY OF KALAMAZOO, MICHIGAN
Statement of Net Assets
Metro Transit System Component Unit
December 31, 2006

	Enterprise Fund	Adjustments	Statement of Net Assets
Assets			
Current assets:			
Cash and cash equivalents	\$ 3,538,420	\$ -	\$ 3,538,420
Receivables, net	795,714	-	795,714
Due from primary government	-	534,859	534,859
Other assets	314,335	-	314,335
Total current assets	<u>4,648,469</u>	<u>534,859</u>	<u>5,183,328</u>
Non-current assets:			
Restricted investments	1,132,909	-	1,132,909
Capital assets, net	19,485,300	-	19,485,300
Total non-current assets	<u>20,618,209</u>	<u>-</u>	<u>20,618,209</u>
Total assets	<u>25,266,678</u>	<u>534,859</u>	<u>25,801,537</u>
Liabilities			
Current liabilities:			
Account payable and accrued liabilities	751,533	-	751,533
Due to primary government	296,350	-	296,350
Deferred revenue	1,138,304	-	1,138,304
Current portion of long-term debt	21,257	-	21,257
Total current liabilities	<u>2,207,444</u>	<u>-</u>	<u>2,207,444</u>
Long-term liabilities:			
Due in more than one year	<u>148,800</u>	<u>-</u>	<u>148,800</u>
Total liabilities	<u>2,356,244</u>	<u>-</u>	<u>2,356,244</u>
Net assets			
Invested in capital assets	19,485,300	-	19,485,300
Unrestricted	<u>3,425,134</u>	<u>534,859</u>	<u>3,959,993</u>
Total net assets	<u>\$ 22,910,434</u>	<u>\$ 534,859</u>	<u>\$ 23,445,293</u>

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of Fund Net Assets of the
Enterprise Fund to Net Assets
Metro Transit System Component Unit
December 31, 2006

Fund net assets	\$ 22,910,434
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Amounts reported in the statement of net assets are different because:

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. A portion of the net revenue (expense) of certain internal service funds is allocated to the System and reported in the statement of activities.

Add: net operating gain from component unit activities accounted for in governmental internal service funds	534,859
---	---------

Net assets	<u>\$ 23,445,293</u>
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CITY OF KALAMAZOO, MICHIGAN
Statement of Activities and Enterprise Fund Revenue,
Expenses, and Changes in Fund Net Assets
Metro Transit System Component Unit
For the Year Ended December 31, 2006

	Enterprise Fund	Adjustments	Statement of Activities
Expenses	\$ 13,232,912	\$ (77,127)	\$ 13,155,785
Program revenues			
Charges for services	2,100,135	-	2,100,135
Operating grants, contributions, and restricted interest	8,608,399	-	8,608,399
Capital grants and contributions	3,861,724	-	3,861,724
Total program revenues	14,570,258	-	14,570,258
Net revenue	1,337,346	77,127	1,414,473
General revenues			
Property taxes	1,589,909	-	1,589,909
Loss on sale of capital assets	(75,011)	75,011	-
Total general revenues	1,514,898	75,011	1,589,909
Change in net assets	2,852,244	152,138	3,004,382
Net assets, beginning of year	20,058,190	382,721	20,440,911
Net assets, end of year	<u>\$ 22,910,434</u>	<u>\$ 534,859</u>	<u>\$ 23,445,293</u>

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of Enterprise Fund Revenue, Expenses
and Changes in Fund Net Assets to the Statement of Activities
Metro Transit System Component Unit
For the Year Ended December 31, 2006

Change in net assets - enterprise fund	\$ 2,852,244
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Amounts reported in the statement of activities are different because:

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. A portion of the net revenue (expense) of certain internal service funds is allocated to the System and reported in the statement of activities.

Add: net operating gain from component unit activities accounted for in governmental internal service funds	<u>152,138</u>
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Change in net assets	<u><u>\$ 3,004,382</u></u>
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CITY OF KALAMAZOO, MICHIGAN

STATISTICAL SECTION INDEX

The statistical section of the City of Kalamazoo's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

TABLE NO. TABLE DESCRIPTION

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

- | | |
|---|--|
| 1 | Net Assets by Component |
| 2 | Changes in Net Assets |
| 3 | Fund Balances of Governmental Funds |
| 4 | Changes in Fund Balances of Governmental Funds |

Revenue Capacity

These schedules contain information to help the reader understand the City's financial most significant local revenue source, property tax.

- | | |
|---|---|
| 5 | Assessed Value and Estimated Actual Value of Taxable Property |
| 6 | Property Tax Rates - Direct and Overlapping Governments |
| 7 | Principal Property Taxpayers |
| 8 | Property Tax Levies and Collections |

Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

- | | |
|-----|--|
| 9 | Ratios of Outstanding Debt by Type |
| 10 | Ratios of General Bonded Debt Outstanding |
| 11 | Direct and Overlapping Governmental Activities Debt |
| 12a | Legal Debt Margin Information - Computation of Legal Debt Margin |
| 12b | Legal Debt Margin Information - Historical |
| 13 | Pledged-Revenue Coverage |

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment with which the City's financial activities take place.

- | | |
|----|-------------------------------------|
| 14 | Demographic and Economic Statistics |
| 15 | Principal Employers |

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information the government's financial report relates to the services the government provides and the activities it performs.

- | | |
|----|--|
| 16 | Full-time Equivalent City Government Employees by Function |
| 17 | Operating Indicators by Function |
| 18 | Capital Asset Statistics by Function |

Supplementary Schedules

These schedules contain additional supplementary information.

- 19 Schedule of Revenues and Expenditures for Activities Related to the State of Michigan
Construction Code Act
- 20 Pension Plan - Revenues by Source and Expense by Type

Security and Exchange Commission (SEC) Additional Disclosures

These schedules provide additional disclosures to comply with the SEC rule 15c2-12 for continuing disclosures. The information in these schedules provides additional data not included elsewhere in the comprehensive annual financial report or statistical data.

- 21 *Taxable Value:*
 - Total Taxable Value
 - Taxable Value by Use and Class
 - Percent of Taxable Value by Use and Class
- 22 *State Equalized Value (SEV):*
 - Total SEV
 - SEV by Use and Class
 - Percent of Total SEV by Use and Class
- 23 Maximum and Actual Tax Rates
- 24 Revenue Sharing from the State of Michigan
- 25 Receipts from Michigan Transportation Fund
- 26 Labor Contracts
- 27 Employment Statistics
- 28 Water Supply Franchises
- 29 Approximate Number of Water Supply Customers by Location and User Classification
- 30 Approximate Number of Water Customers by Location and Size of Meter or Fire
- 31 Water Supply Ready-to-Serve Charges by Meter Location and Size
- 32 Water Supply Commodity Charges by Meter Location and Classification
- 33 History of Water System Rate Increases
- 34 Water Supply Volume as Pumped and Billed
- 35 Water Volume as Billed by Meter Location and Classification
- 36 Average and Peak Daily Water Supply Volume
- 37 Water Supply Revenue as Billed by Meter Location and Classification
- 38 Ten Largest Water Customers by Volume and Revenue
- 39 Wastewater Service Agreements
- 40 Approximate Number of Wastewater Customers by Location and User Classification
- 41 Number of Retail Customers by Meter Size
- 42 Wastewater Ready-to-Serve Charges by Water Meter Location and Size
- 43 Wastewater Treatment Charges by Customer Classification
- 44 Wastewater Treatment Volume as Billed by Customer and User Classification
- 45 Wastewater Volume as Treated and Billed
- 46 Average and Peak Daily Wastewater Treatment Volume
- 47 Ten Largest Wastewater Customers by Wastewater System Revenue and Volume as Billed
- 48 Wastewater Treatment Revenue as Billed by Meter Location and Classification
- 49 History of Wastewater System Rate Increases

Note: Unless otherwise noted, the information on these schedules is derived from the comprehensive annual financial reports for the relevant year.

CITY OF KALAMAZOO, MICHIGAN
Net Assets by Component
Last Four Years
(accrual basis of accounting)

	2003	2004	2005	2006
Governmental activities				
Invested in capital assets, net of related debt	\$ 107,634,804	\$ 107,099,832	\$ 105,799,049	\$ 109,408,557
Restricted	13,611,731	11,360,665	30,173,266	28,757,898
Unrestricted	19,450,183	22,618,398	13,089,868	18,356,265
Total governmental activities net assets	<u>\$ 140,696,718</u>	<u>\$ 141,078,895</u>	<u>\$ 149,062,183</u>	<u>\$ 156,522,720</u>
Business-type activities				
Invested in capital assets, net of related debt	\$ 147,019,802	\$ 145,705,440	\$ 148,221,106	\$ 152,082,594
Restricted	12,521,283	15,616,902	14,823,500	11,618,293
Unrestricted	11,151,951	12,307,683	12,425,961	13,279,738
Total business-type activities	<u>\$ 170,693,036</u>	<u>\$ 173,630,025</u>	<u>\$ 175,470,567</u>	<u>\$ 176,980,625</u>
Primary government				
Invested in capital assets, net of related debt	\$ 254,654,606	\$ 252,805,272	\$ 254,020,155	\$ 261,491,151
Restricted	26,133,014	26,977,567	44,996,766	40,376,191
Unrestricted	30,602,134	34,926,081	25,515,829	31,636,003
Total primary government net assets	<u>\$ 311,389,754</u>	<u>\$ 314,708,920</u>	<u>\$ 324,532,750</u>	<u>\$ 333,503,345</u>

CITY OF KALAMAZOO, MICHIGAN
Changes in Net Assets
Last Four Years
(accrual basis of accounting)

	2003	2004	2005	2006
Expenses				
Governmental activities:				
General government	\$ 6,275,945	\$ 5,354,674	\$ 5,307,982	\$ 6,491,807
Public safety	31,128,037	32,320,014	30,897,982	29,898,894
Economic development	1,048,265	982,743	902,612	527,345
Community development and planning	5,587,120	7,676,008	6,363,525	5,051,199
Parks	844,727	1,039,470	905,279	894,120
Recreation	1,904,491	1,670,349	1,583,015	1,855,689
Public works	6,720,951	6,240,100	5,532,502	5,255,159
Streets	6,543,652	6,883,911	7,085,322	6,636,399
Interest on long-term debt	2,489,721	2,582,855	3,119,829	3,091,454
Total governmental activities expenses:	<u>\$ 62,542,909</u>	<u>\$ 64,750,124</u>	<u>\$ 61,698,048</u>	<u>\$ 59,702,066</u>
Business-type activities:				
Wastewater	\$ 20,109,707	\$ 19,904,896	\$ 20,770,198	\$ 20,370,767
Water	10,982,741	10,936,547	11,392,060	11,875,242
Other	192,711	195,459	1,119,540	40,649
Total business-type activities expenses:	<u>\$ 31,285,159</u>	<u>\$ 31,036,902</u>	<u>\$ 33,281,798</u>	<u>\$ 32,286,658</u>
Total primary government expenses:	<u>\$ 93,828,068</u>	<u>\$ 95,787,026</u>	<u>\$ 94,979,846</u>	<u>\$ 91,988,724</u>
Program Revenues				
Governmental activities:				
Charges for services:				
General government	\$ 2,598,972	\$ 2,746,278	\$ 2,507,300	\$ 2,988,396
Community development and planning	1,574,513	1,560,806	2,985,821	1,166,367
Other	1,008,671	1,012,056	1,003,322	1,085,864
Operating grants and contributions	15,874,688	16,811,523	18,002,937	13,439,433
Capital grants and contributions	90,690	532,334	479,577	393,565
Total governmental activities program revenues:	<u>\$ 21,147,534</u>	<u>\$ 22,662,997</u>	<u>\$ 24,978,957</u>	<u>\$ 19,073,625</u>
Business-type activities:				
Charges for services:				
Wastewater	\$ 19,582,578	\$ 19,266,485	\$ 18,424,157	\$ 17,996,945
Water	8,010,662	8,284,199	8,914,883	10,933,129
Other	115,912	136,499	32,560	45,611
Operating grants and contributions	327,609	236,315	1,422,097	1,010,733
Capital grants and contributions	5,717,560	5,674,667	6,316,121	3,618,003
Total business-type activities program revenues:	<u>\$ 33,754,321</u>	<u>\$ 33,598,165</u>	<u>\$ 35,109,818</u>	<u>\$ 33,604,421</u>
Total primary government program revenues:	<u>\$ 54,901,855</u>	<u>\$ 56,261,162</u>	<u>\$ 60,088,775</u>	<u>\$ 52,678,046</u>
Net (Expense) Revenue				
Governmental activities:	\$ (41,395,375)	\$ (42,087,127)	\$ (36,719,091)	\$ (40,628,441)
Business-type activities:	2,469,162	2,561,263	1,828,020	1,317,763
Total primary government net expense:	<u>\$ (38,926,213)</u>	<u>\$ (39,525,864)</u>	<u>\$ (34,891,071)</u>	<u>\$ (39,310,678)</u>
General Revenues and Other Changes in Net Assets				
Governmental activities:				
General revenues:				
Property taxes	\$ 30,937,165	\$ 31,803,955	\$ 33,066,650	\$ 35,148,859
Grants and contributions not restricted to specific programs	11,436,571	10,499,478	10,461,886	10,967,559
Unrestricted investment earnings	488,519	513,444	1,119,704	1,757,763
Gain on sale of assets	80,533	27,753	-	-
Contributions to permanent funds:	55,275	35,020	54,139	44,577
Transfers- internal activities	(32,000)	(319,342)	-	-
Total governmental activities:	<u>\$ 42,966,063</u>	<u>\$ 42,560,308</u>	<u>\$ 44,702,379</u>	<u>\$ 47,918,758</u>
Business-type activities:				
Grants and contributions not restricted to specific programs	\$ 5,035	\$ 29,593	\$ (8,646)	\$ 8,645
Unrestricted investment earnings	15,276	15,085	16,454	36,799
Gain on sale of assets	14,912	11,706	4,714	146,851
Transfers - internal activities	32,000	319,342	-	-
Special item - loss on sale of capital assets/inventory	(4,218,681)	-	-	-
Total business-type activities:	<u>\$ (4,151,458)</u>	<u>\$ 375,726</u>	<u>\$ 12,522</u>	<u>\$ 192,295</u>
Total primary government:	<u>\$ 38,814,605</u>	<u>\$ 42,936,034</u>	<u>\$ 44,714,901</u>	<u>\$ 48,111,053</u>
Change in Net Assets				
Governmental activities:	\$ 1,570,688	\$ 473,181	\$ 7,983,288	\$ 7,290,317
Business-type activities:	(1,682,296)	2,936,989	1,840,542	1,510,058
Total primary government:	<u>\$ (111,608)</u>	<u>\$ 3,410,170</u>	<u>\$ 9,823,830</u>	<u>\$ 8,800,375</u>

CITY OF KALAMAZOO, MICHIGAN
Fund Balances of Governmental Funds
Last Four Years
(modified accrual basis of accounting)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General fund				
Reserved	\$ 243,823	\$ 117,087	\$ 584,441	\$ 600,835
Unreserved	4,091,213	2,053,381	2,772,957	5,554,688
Total general fund	<u>\$ 4,335,036</u>	<u>\$ 2,170,468</u>	<u>\$ 3,357,398</u>	<u>\$ 6,155,523</u>
All other governmental funds				
Reserved	\$ 7,613,117	\$ 8,864,237	\$ 11,659,071	\$ 9,177,854
Unreserved, reported in:				
Special revenue funds	5,335,006	9,100,034	3,714,325	4,006,455
Debt service funds	206,447	175,966	407,306	248,595
Capital project funds	2,661,899	5,743,562	5,152,200	7,897,735
Permanent funds	1,693,125	2,189,177	2,249,232	2,610,660
Total all other governmental funds	<u>\$ 17,509,594</u>	<u>\$ 26,072,976</u>	<u>\$ 23,182,134</u>	<u>\$ 23,941,299</u>

The increase in the total fund balance of the general fund in 2006 is explained in the Management's Discussion and Analysis.

CITY OF KALAMAZOO, MICHIGAN
Changes in Fund Balances of Governmental Funds
Last Four Years
(modified accrual basis of accounting)

	2003	2004	2005	2006
Revenues				
Property taxes and special assessments	\$ 30,187,060	\$ 31,059,692	\$ 32,472,148	\$ 34,508,937
Licenses and permits	1,797,321	1,972,128	2,187,748	1,937,580
Intergovernmental revenue	21,477,998	22,951,771	22,062,498	20,120,520
Charges for services	1,009,499	1,520,621	1,362,100	1,599,259
Fines and forfeits	220,918	313,457	412,643	241,075
Interest and dividends	707,975	919,177	1,545,668	2,132,582
Net investment earnings	1,188,778	662,985	293,975	660,122
Rental of facilities	2,473,297	2,440,467	2,407,576	2,803,567
Other revenue	7,110,905	6,358,129	7,076,876	7,580,521
Total revenues	<u>\$ 66,173,751</u>	<u>\$ 68,198,427</u>	<u>\$ 69,821,232</u>	<u>\$ 71,584,163</u>
Expenditures				
Current Expenditures:				
General government	\$ 9,454,312	\$ 9,290,156	\$ 8,588,226	\$ 8,988,625
Public safety	30,164,964	31,422,767	30,677,808	30,547,482
Economic development	1,315,177	1,183,684	1,039,477	565,017
Community development and planning	5,614,165	7,735,233	6,362,662	5,127,485
Parks and recreation	2,503,219	2,824,267	2,540,006	2,587,159
Public works	1,368,157	1,357,049	1,292,281	1,143,920
Cemeteries	393,555	413,008	571,613	555,138
Solid waste	2,018,457	2,296,871	2,109,015	2,239,957
Streets	3,167,739	3,432,117	3,647,201	9,580,546
Other			92,747	169,271
Debt service:				
Principal	5,149,510	5,060,999	13,754,076	5,067,709
Interest and fiscal charges	2,537,353	2,503,431	3,315,456	2,912,669
Capital outlay	9,531,293	7,790,172	18,582,210	5,125,701
Total expenditures	<u>\$ 73,217,901</u>	<u>\$ 75,309,754</u>	<u>\$ 92,572,778</u>	<u>\$ 74,610,679</u>
Excess (deficiency) of revenues over expenditure:	<u>\$ (7,044,150)</u>	<u>\$ (7,111,327)</u>	<u>\$ (22,751,546)</u>	<u>\$ (3,026,516)</u>
Other financing sources (uses)				
Transfers in	\$ 8,190,472	\$ 9,119,874	\$ 10,466,647	\$ 10,001,607
Transfers out	\$ (8,102,193)	\$ (8,275,022)	\$ (9,634,221)	\$ (10,758,458)
Proceeds from the sale of capital assets	29,566	21,293	1,896,539	36,705
Issuance of long-term debt	1,940,000	12,735,000	18,145,000	7,110,000
Bond premium	147		173,669	23,732
Total other financing sources (uses)	<u>\$ 2,057,992</u>	<u>\$ 13,601,145</u>	<u>\$ 21,047,634</u>	<u>\$ 6,413,586</u>
Net change in fund balances	<u>\$ (4,986,158)</u>	<u>\$ 6,489,818</u>	<u>\$ (1,703,912)</u>	<u>\$ 3,387,070</u>
Debt service as a percentage of noncapital expenditures	13.7%	12.6%	30.0%	13.0%

CITY OF KALAMAZOO, MICHIGAN
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Years

Year	Taxable Assessed Value (A)			Total Taxable Assessed Value (A)	Total Direct Tax Rate	Estimated Actual Value	Ratio of Total Assessed to Total Estimated Actual Value
	Real	Personal	Industrial and Commercial Subject to Act 198				
1997	\$ 935,384,020	\$ 233,108,300	\$ 48,893,850	\$ 1,217,386,170	\$ 21.1079	\$ 2,524,211,040	48.2%
1998	975,989,650	227,662,700	46,185,125	1,249,837,475	21.1440	2,585,878,800	48.3%
1999	1,016,391,380	237,632,548	43,084,950	1,297,108,878	21.5667	2,673,281,256	48.5%
2000	1,034,261,518	229,137,050	32,650,000	1,296,048,568	21.5667	2,964,880,756	43.7%
2001	1,090,113,040	238,143,600	32,089,500	1,360,346,140	21.5667	3,076,324,910	44.2%
2002	1,175,434,380	238,009,950	15,096,550	1,428,540,880	21.9205	3,219,520,360	44.4%
2003	1,213,441,494	244,276,534	35,442,050	1,493,160,078	21.9205	3,404,210,728	43.9%
2004	1,274,216,408	219,353,550	36,821,197	1,530,391,155	22.1405	3,546,183,600	43.2%
2005	1,330,662,249	213,784,700	33,929,243	1,578,376,192	22.1405	3,657,698,240	43.2%
2006	1,393,452,901	225,841,898	23,178,428	1,642,473,227	21.9049	3,841,553,300	42.8%

Source: City of Kalamazoo, Management Services Department, Assessor Division

Note: Property in the city is reassessed annually. State statute requires all taxable property to be assessed at 50% of the market value, except certain facilities which are granted exemption certificates under Act 198, Public Acts of Michigan. This Act was designed to provide a stimulus in the form of tax incentives to industrial and commercial enterprises to renovate and expand aging facilities and to build new facilities. However, Proposal A limits the increase of the taxable value to 5% or the Consumer Price Index, whichever is lower. The rates are per \$1,000 of assessed value.

(A) Taxable values include adjustments to the final adopted assessment roll due to Tax Tribunal Judgments, Board of Review decisions and other adjustments affecting the assessment roll or the tax levy as of December 31, 2006. These values do not reflect adjustments for real estate taxes cancelled through foreclosure, or personal property taxes cancelled by the Circuit Court. These adjustments increased the 2006 roll by \$693,581.

CITY OF KALAMAZOO, MICHIGAN
Property Tax Rates
Direct and Overlapping Governments
Last Ten Years

Year ended December 31	City of Kalamazoo				Overlapping Rates						Totals	
	Operating	Refuse Collection and Disposal	Mass Trans- portation	Total City Millage (A)	Kalamazoo Public Schools (B)	County	State Education Tax	Kalamazoo Valley Intermediate School District	Kalamazoo Valley Community College	District Library	Non- Homestead	(C) Homestead
1997	19.3440	1.2639	0.5000	21.1079	21.2000	5.8405	6.0000	3.0500	2.8231	4.0000	64.0215	46.0220
1998	19.3440	1.3000	0.5000	21.1440	21.2000	6.1400	6.0000	3.0500	2.8231	4.0000	64.3571	46.3571
1999	19.2705	1.3000	0.9962	21.5667	21.0500	6.1400	6.0000	3.0416	2.8152	3.9583	64.5718	46.5718
2000	19.2705	1.3000	0.9962	21.5667	21.0500	6.1400	6.0000	3.0416	2.8151	3.9583	64.5717	46.5717
2001	19.2705	1.3000	0.9962	21.5667	22.0800	6.1400	6.0000	3.0416	2.8151	3.9853	65.6287	47.6017
2002	19.2705	1.6500	1.0000	21.9205	22.2000	6.1362	6.0000	3.0416	2.8139	3.9583	66.0705	48.0705
2003	19.2705	1.6500	1.0000	21.9205	22.2000	6.1362	5.0000	3.0416	2.8139	3.9583	65.0705	47.0705
2004	19.2705	1.8700	1.0000	22.1405	22.2000	6.1362	6.0000	3.0416	2.8135	3.9583	66.2901	48.2901
2005	19.2705	1.8700	1.0000	22.1405	22.2000	6.1362	6.0000	4.5416	2.8135	3.9583	67.7901	49.7901
2006	19.1606	1.7500	0.9943	21.9049	23.3500	6.5862	6.0000	4.5416	2.8135	3.9583	69.1545	51.1545

Source: City of Kalamazoo, Management Services Department, Treasury Division

Note: Overlapping rates are those of local and county governments that apply to property owners within the City of Kalamazoo. Not all overlapping rates apply to all City of Kalamazoo property owners (e.g., the rates for special districts apply only to the proportion of the city's property owners whose property is located within the geographic boundaries of the special district). Tax rates are expressed as a dollar for each \$1,000 of taxable property value.

- (A) The City's Downtown Development Authority levies an additional \$1.9638 for each \$1,000 of Taxable Value within the City's Downtown Development District
- (B) Kalamazoo Public Schools is the largest school district within the City. Portions of other school districts overlap the City's boundaries. Of those which do, the millage rates for the fiscal year ended December 31, 2006 ranged from \$20.7000 to 23.3500 for each \$1,000 of Taxable Value. The total tax rates for property owners in these other school districts would differ accordingly.
- (C) Homestead means a dwelling or unit in a multiple-unit dwelling subject to ad valorem property taxes that is owned and occupied as a principal residence by the owner of the dwelling or entity. Homestead also includes certain agricultural property, registered life care facilities, and property owned by a cooperative housing corporation and occupied as a Homestead.

CITY OF KALAMAZOO, MICHIGAN
Principal Property Taxpayers
Current Year and Nine Years Ago

Taxpayer	Industry	2006					1997 (C)		
		Taxable Value of Property			Rank	(B) Percent of Total	Taxable Assessed	Rank	Percent of Total
		Ad Valorem	Abated (A)	Total			Value		
Pfizer Corporation / Pharmacia & Upjohn	Pharmaceuticals	\$ 103,846,416	\$ 415,421	\$ 104,261,837	1	6.35%	\$ 141,397,100	1	11.60%
Graphic Packaging	Paper Products	29,652,841	309,300	29,962,141	2	1.82%	-	-	-
Consumer's Energy / Consumer's Power Company	Utility	25,653,550		25,653,550	3	1.56%	28,077,600	3	0.23%
Greenleaf Holdings	Real Estate	25,546,265		25,546,265	4	1.56%	-	-	-
James S. Smith Trust	Rental Properties	13,133,742		13,133,742	5	0.80%	-	-	-
American Greetings	Paper Products	13,006,861		13,006,861	6	0.79%	-	-	-
Bronson Hospital	Health Care	10,976,380		10,976,380	7	0.67%	-	-	-
Cytec Industries	Chemical Manufacturing	10,669,613		10,669,613	8	0.65%	8,559,250	6	0.70%
Lifecare (Friendship Village)	Retirement Community	9,837,399		9,837,399	9	0.60%	-	-	-
TVO Candlewyck Apartments	Apartment Complex	9,476,789		9,476,789	10	0.58%	6,814,000	8	0.56%
James River Corporation	Paper Products						48,883,900	2	4.01%
Parker - Hannifin Co.	Industrial Manufacturing						9,330,550	4	0.77%
Drake Pond Apartments	Residential Development						8,808,200	5	0.72%
First of America Bank	Banking						7,068,000	7	0.58%
Beach Products	Paper Products						6,501,150	9	0.53%
Durametallic	Valve Seals						5,726,350	10	0.47%
		<u>\$ 251,799,856</u>	<u>\$ 724,721</u>	<u>\$ 252,524,577</u>		<u>15.37%</u>	<u>\$ 271,166,100</u>		<u>22.24%</u>

Source: City of Kalamazoo, Management Services Department, Assessor Division

- (A) Represents equivalent taxable value of property granted tax abatement under Acts 198.
- (B) The City's total taxable value of \$1,642,473,227 for the year ending December 31, 2006 includes the taxable value of property granted tax abatement under Act 198 and board adjustments. See Table 5 for data on taxable values.
- (C) Values are the basis for the 1997 Assessment Roll and the 1997 Tax Roll. The City's Total Taxable Valuation, including Act 198 and Act 255 values totaled \$1,219,355,050.

CITY OF KALAMAZOO, MICHIGAN
Property Tax Levies and Collections
General Property Tax Levy
Last Ten Years

Year	(A) Total Adjusted Tax Levy	Collection of Current Year's Taxes During Year Levied	Percent of Levy Collected During Year Levied	(B) Collection Subsequent to the Year of Tax Levy	Total Collections	Percent of Total Collections to Tax Levy
1997	\$ 23,487,443	\$ 20,357,523	86.67%	\$ 3,095,730	\$ 23,453,253	99.85%
1998	24,039,638	20,944,734	87.13%	3,064,000	24,008,734	99.87%
1999	24,946,250	22,061,411	88.44%	2,840,107	24,901,518	99.82%
2000	25,548,795	22,249,362	87.09%	3,117,982	25,367,344	99.29%
2001	26,109,481	22,719,024	87.01%	3,187,627	25,906,651	99.22%
2002	27,447,616	24,051,078	87.63%	3,094,305	27,145,383	98.90%
2003	28,428,822	24,665,670	86.76%	3,317,739	27,983,409	98.43%
2004	29,063,140	25,195,702	86.69%	3,619,339	28,815,041	99.15%
2005	30,046,920	25,828,635	85.96%	3,612,278	29,440,913	97.98%
2006	31,177,140	26,574,222	85.24%	-	26,574,222	85.24%

Source: City of Kalamazoo, Management Services Department, Treasury Division

(A) Reflects general operating levy only, whereas General Fund property tax revenues in the general purpose financial statements include the general levy, payments in lieu of taxes and special assessments. All total tax levies reflect adjustments for Tax Tribunal consent judgments, Board of Review decisions, real estate taxes cancelled through foreclosure and state scavenger sales, and personal property taxes cancelled by Circuit Court.

(B) Reflects collections through December 31, 2006

CITY OF KALAMAZOO, MICHIGAN
Ratios of Outstanding Debt by Type
Last Ten Years

Year	Governmental Activities				Business-Type Activities			Total Primary Government	Percentage of Personal Income	Per Capita (B)
	General Obligation Bonds	Revenue Bonds	Installment Purchase Contracts	Special Assessment Bonds (A)	General Obligation Bonds	Revenue Bonds	Installment Purchase Contracts			
1997	\$ 23,690,000	\$ 12,655,000	\$ 4,799,580	\$ -	\$ 1,400,000	\$ 28,450,000	\$ 609,000	\$ 71,603,580	3.52%	\$ 892
1998	27,935,000	10,990,000	3,558,453	-	1,200,000	26,440,000	538,000	70,661,453	3.30%	880
1999	35,935,000	9,720,000	3,179,772	670,000	1,000,000	24,335,000	463,000	75,302,772	3.47%	938
2000	35,810,000	11,640,000	3,290,378	625,000	750,000	22,060,000	382,000	74,557,378	3.48%	966
2001	37,520,000	10,505,000	2,899,955	575,000	500,000	21,055,000	296,000	73,350,955	3.32%	951
2002	36,320,000	11,575,000	2,425,594	525,000	-	20,850,000	204,000	71,899,594	3.15%	932
2003	35,065,000	10,120,000	1,831,084	475,000	-	30,010,000	105,000	77,606,084	3.29%	1,006
2004	40,740,000	12,925,000	970,085	425,000	-	23,885,000	-	78,945,085	3.26%	1,023
2005	46,940,000	11,395,000	736,009	380,000	-	22,690,000	-	82,141,009	3.32%	1,065
2006	50,920,000	9,805,000	433,300	335,000	-	23,735,000	-	85,228,300	3.44%	1,105

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

(A) Special assessment bonds were issued in 1999.

(B) See the Schedule of Demographic and Economic Statistics at Table 14 for personal income and population data.

CITY OF KALAMAZOO, MICHIGAN
Ratios of General Bonded Debt Outstanding
Last Ten Years

<u>Year</u>	<u>General Obligation Bonds</u>	<u>Less: Amounts Available in Debt Service Funds (A)</u>	<u>Total</u>	<u>Percentage of Estimated Actual Value of Property (B)</u>	<u>Per Capita (C)</u>
1997	\$ 25,090,000	\$ 74,963	\$ 25,015,037	0.99%	\$ 311.61
1998	29,135,000	19,516	29,115,484	1.13%	362.69
1999	36,935,000	2,835	36,932,165	1.38%	460.06
2000	36,560,000	3,524	36,556,476	1.23%	473.87
2001	31,560,000	181	31,559,819	1.03%	409.10
2002	36,320,000	1,000	36,319,000	1.13%	470.79
2003	35,065,000	795	35,064,205	1.03%	454.52
2004	40,740,000	258	40,739,742	1.15%	528.09
2005	46,940,000	245,300	46,694,700	1.28%	605.28
2006	50,920,000	89,319	50,830,681	1.32%	658.90

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

- (A) The net assets of the special assessment debt service fund are not available to general obligation bonds and are excluded from the amounts available in debt service funds.
- (B) See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property at Table 4 for property value data.
- (C) Population data can be found in the Schedule of Demographic and Economic Statistics at Table 14.

CITY OF KALAMAZOO, MICHIGAN
Direct and Overlapping Governmental Activities Debt
As of December 31, 2006

Overlapping:

	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
Comstock School District	\$ 8,441,000	16.09%	\$ 1,358,157
Kalamazoo School District	137,006,000	61.90%	84,806,714
Parchment School District	16,910,000	1.05%	177,555
Portage School District	32,963,000	1.60%	527,408
Kalamazoo County	9,300,000	21.74%	2,021,820
Kalamazoo Library District	9,020,000	58.98%	5,319,996
Total overlapping debt	<u>\$ 213,640,000</u>		<u>\$ 94,211,650</u>

Direct:

	<u>Gross Debt</u>	<u>Self- Supporting (A)</u>	<u>Net Direct Debt</u>
General obligation bonds:			
Building Authority	\$ 38,000,000	\$ 27,972,005	\$ 10,027,995
Downtown Development	5,480,000	5,480,000	-
Capital improvement	7,440,000	210,420	7,229,580
Revenue bonds:			
Michigan Transportation Fund	9,805,000	9,805,000	-
Special assessment bonds	335,000	335,000	-
Installment purchase contracts	433,300	98,000	335,300
Total direct debt	<u>\$ 61,493,300</u>	<u>\$ 43,900,425</u>	<u>\$ 17,592,875</u>

Total net direct and overlapping debt of governmental activities **\$ 111,804,525**

Sources: City of Kalamazoo, Management Services Department, Accounting Division
Municipal Advisory Council of Michigan.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the city. This schedule estimates the portion of outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Kalamazoo. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden born by the residents and businesses should be taken into account. However, this does not imply that every tax payer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

(A) Self-Supporting debt obligations are to be repaid through sources other than the City's general property tax revenues.

CITY OF KALAMAZOO, MICHIGAN
Legal Debt Margin Information
Computation of Legal Debt Margin
December 31, 2006

State Equalized Value (A)	
Ad valorem property	\$ 1,895,004,224
Tax abated property	<u>23,390,200</u>
Total State Equalized Value (SEV)	<u>\$ 1,918,394,424</u>
Limitation per Section 5.2074 of the Home Rule Act of the State of Michigan	<u>10.0%</u>
Legal Limitation	<u>\$ 191,839,442</u>
Debt Obligations of the Primary Government (B)	\$ 85,228,300
Less debt not subject to limitation:	
Water System and Wastewater System Revenue Bonds	\$ (23,735,000)
Michigan Transportation Fund Bonds	(9,805,000)
Special Assessment Bonds	<u>(335,000)</u>
	<u>(33,875,000)</u>
Total Debt of the City Subject to Limitation	<u>51,353,300</u>
LEGAL DEBT MARGIN	<u>\$ 140,486,142</u>

Note: Under Michigan Home Rule Cities Act, the City of Kalamazoo's outstanding general obligation debt should not exceed 10 percent of total assessed value of all real and personal property in the city.

Significant exceptions to the debt limitation have been permitted by the Home Rule Cities Act for certain types of indebtedness which include: special assessment bonds and Michigan transportation fund bonds; revenue bonds payable from revenues only; bonds issued or contract obligations assessments incurred to comply with an order of the Water Resources Commission of the State of Michigan; obligations incurred for water supply, sewage, drainage, or refuse disposal or resource recover projects necessary to protect public health; bonds issued, assessments, or contract obligations incurred for the construction, improvement, or replacement of a combined sewer overflow abatement facility.

(A) State equalized assessed property values are assessed at December 31, 2005 for the basis of the year ending December 31, 2006 tax levy. See supplemental Schedule of State Equalized Value at Table 22 for property value data.

(B) See the Schedule of Ratios of Outstanding Debt by Type at Table 9 for the outstanding debt of the primary government.

CITY OF KALAMAZOO, MICHIGAN
Legal Debt Margin Historical Information
Last Ten Years

<u>Year</u>	<u>Debt Limit</u>	<u>Total Net Debt Applicable to Limit</u>	<u>Legal Debt Margin</u>	<u>Total Net Debt Applicable to Limit as a Percentage of Debt Limit</u>
1997	\$ 128,361,385	\$ 32,012,300	\$ 96,349,085	24.9%
1998	134,769,835	32,391,000	102,378,835	24.0%
1999	147,357,950	39,577,772	107,780,178	26.9%
2000	150,699,450	39,482,378	111,217,072	26.2%
2001	154,204,477	40,715,956	113,488,521	26.4%
2002	160,757,278	38,699,595	122,057,683	24.1%
2003	170,336,373	36,321,084	134,015,289	21.3%
2004	176,969,170	41,415,085	135,554,085	23.4%
2005	182,904,652	47,676,009	135,228,643	26.1%
2006	191,839,442	51,535,300	140,304,142	26.9%

Source:

City of Kalamazoo, Management Services Department, Accounting Division

CITY OF KALAMAZOO, MICHIGAN
Pledged-Revenue Coverage
Last Ten Years

Governmental Activities:

Michigan Transportation Revenue Bonds (A)						
Year	Gas and Weight Tax Revenues (A)	Debt Service			Coverage	
	Principal	Interest	Total			
1997	\$ 4,187,429	\$ 780,000	\$ 601,427	\$ 1,381,427	3.03	
1998	5,022,638	766,827	571,124	1,337,951	3.75	
1999	5,107,161	910,453	573,719	1,484,172	3.44	
2000	4,378,739	940,000	584,653	1,524,653	2.87	
2001	5,283,656	1,135,000	610,791	1,745,791	3.03	
2002	5,079,877	1,230,000	554,849	1,784,849	2.85	
2003	5,313,674	1,455,000	502,143	1,957,143	2.72	
2004	5,568,127	1,515,000	512,153	2,027,153	2.75	
2005	5,316,925	1,530,000	529,523	2,059,523	2.58	
2006	5,278,013	1,590,000	466,840	2,056,840	2.57	

Special Assessment Bonds (B)						
Year	Special Assessment Collections	Debt Service			Coverage	
	Principal	Interest	Total			
1999	\$ 110,015	\$ 10,000	\$ 9,244	\$ 19,244	5.72	
2000	78,968	45,000	33,146	78,146	1.01	
2001	57,171	50,000	32,824	82,824	0.69	
2002	67,990	50,000	29,175	79,175	0.86	
2003	74,553	50,000	25,976	75,976	0.98	
2004	43,503	50,000	23,447	73,447	0.59	
2005	52,539	45,000	21,241	66,241	0.79	
2006	61,480	45,000	19,210	64,210	0.96	

(A) Gas and weight tax revenues are reported in the Major and Local Streets funds. Amounts required for debt service are transferred to the Michigan Transportation Bond debt service fund for payment.

(B) Special assessment bonds were issued in 1999.

CITY OF KALAMAZOO, MICHIGAN
Pledged-Revenue Coverage, Concluded
Last Ten Years

Business-type Activities

Wastewater System Revenue Bonds								
Year	Revenues (C)	Direct Operating Expense (B)	Net Available Revenue	Debt Service		Total	Coverage	
				Principal	Interest			
1996	\$ 18,652,352	\$ 14,901,719	\$ 3,750,633	\$ 1,320,000	\$ 647,882	\$ 1,967,882	1.91	
1997	18,470,158	14,744,094	3,726,064	1,410,000	587,822	1,997,822	1.87	
1998	19,374,346	15,859,622	3,514,724	1,465,000	520,848	1,985,848	1.77	
1999	19,468,532	14,776,483	4,692,049	1,535,000	448,330	1,983,330	2.37	
2000	20,051,449	15,193,703	4,857,746	1,675,000	370,045	2,045,045	2.38	
2001	19,095,217	15,546,031	3,549,186	270,000	108,568	378,568	9.38	
2002	18,047,797	16,018,129	2,029,668	170,000	209,035	379,035	5.35	
2003	19,689,923	15,480,424	4,209,499	175,000	203,680	378,680	11.12	
2004	19,165,678	16,537,269	2,628,409	180,000	197,993	377,993	6.95	
2005	19,604,929	15,825,509	3,779,420	185,000	191,783	376,783	10.03	
2006	18,644,955	15,751,408	2,893,547	195,000	185,123	380,123	7.61	

Water System Revenue Bonds								
Year	Revenues (C)	Direct Operating Expense (B)	Net Available Revenue	Debt Service		Total	Coverage	
				Principal	Interest			
1996	\$ 8,788,543	\$ 6,748,604	\$ 2,039,939	\$ 305,000	\$ 937,485	\$ 1,242,485	1.64	
1997	8,898,031	6,552,109	2,345,922	520,000	1,109,316	1,629,316	1.44	
1998	10,113,204	5,843,320	4,269,884	545,000	1,082,584	1,627,584	2.62	
1999	9,810,609	6,808,040	3,002,569	570,000	1,054,259	1,624,259	1.85	
2000	9,804,250	6,945,196	2,859,054	600,000	1,024,231	1,624,231	1.76	
2001	9,937,764	7,334,374	2,603,390	630,000	992,193	1,622,193	1.60	
2002	10,664,599	7,547,334	3,117,265	665,000	796,662	1,461,662	2.13	
2003	9,716,990	7,435,078	2,281,912	785,000	554,405	1,339,405	1.70	
2004	9,926,656	7,281,642	2,645,013	940,000	800,314	1,740,314	1.52	
2005	11,248,538	7,376,725	3,871,813	1,010,000	890,428	1,900,428	2.04	
2006	11,304,497	7,909,955	3,394,542	1,050,000	845,568	1,895,568	2	

Note: Detail regarding the government's outstanding debt can be found in the notes to the financial statements.

- (C) Includes charges for services, operating revenues, and interest earned, excluding grant revenues and interest earned on construction bond monies.
- (D) Includes operations, amortization of bond issuance costs, and other expenses, excluding expenses associated with grant revenues.

CITY OF KALAMAZOO, MICHIGAN
Demographic and Economic Statistics
Last Ten Years

Fiscal Year	(A) Population	(B) Per Capita Income	Personal Income	(A) Median Age	(D) School Enrollment	(E) Unemployment Rate
1997	80,277	\$ 25,332	\$ 2,033,576,964	26.8	12,355	4.2%
1998	80,277	26,692	2,142,753,684	26.8	11,600	3.8%
1999	80,277	27,024	2,169,405,648	26.8	11,305	4.0%
2000	77,145	27,809	2,145,325,305	26.1	11,212	4.2%
2001	77,145	28,626	2,208,352,770	26.1	16,124	5.7%
2002	77,145	29,590	2,282,720,550	26.1	16,195	7.6%
2003	77,145	30,534	2,355,545,430	26.1	15,859	7.6%
2004	77,145	31,411	2,423,201,595	26.1	15,019	7.9%
2005	77,145	32,089	2,475,505,905	26.1	15,285	7.2%
2006	77,145	32,089	2,475,505,905	26.1	15,800	7.2%

Data Sources:

- (A) Bureau of the Census 1990 Population Report for the 1997 to 1999 population data. Bureau of the Census 2000 Population Report for the 2000 to 2006 population data.
- (B) Bureau of Economic Analysis for 1997 to 2005 data, as updated May, 2007. Updated 2006 data is not yet available.
- (D) City of Kalamazoo, Management Services Department. Data summarized from contacting individual public and private school systems in the City. Kalamazoo Public Schools represents the largest school district in the City, with a total enrollment of 11,446 in 2006.
- (E) Michigan Department of Labor and Economic Growth - Office of Labor Market Information, as updated May, 2007. See the Schedule of Employment Statistics at Table 27 for employment data.

Note: Population and median age are based on the most current available census data. Personal income information is an estimate based on the per capita income of the Kalamazoo County. Unemployment rate information is an unadjusted annual rate for the City of Kalamazoo as included in Table 27. School enrollment is based on student counts in February 2007.

CITY OF KALAMAZOO, MICHIGAN
Principal Employers in Kalamazoo County
Current Year and Nine Years Ago

Company	Principal Product or Service	2006			1997		
		Approx. Number of Employees (A)	Rank	Percentage of Employment (B)	Approx. Number of Employees (A)	Rank	Percentage of Employment (B)
Pfizer Corporation / Pharmacia and Upjohn, Inc.	Pharmaceuticals	4,300	1	3.2%	6,238	1	5.0%
Bronson Healthcare Group / Bronson Methodist Hospital	Health Care	3,400	2	2.5%	2,800	4	2.2%
Borgess Health Alliance / Borgess Medical Center	Health Care	2,685	3	2.0%	2,410	5	1.9%
Western Michigan University	Education	2,657	4	2.0%	3,200	2	2.5%
Kalamazoo Public Schools	Education	2,200	5	1.6%	2,200	6	1.8%
Stryker Corporation	Medical Equipment	1,750	6	1.3%	-	-	-
National City Bank / First of America Bank	Banking Services	1,500	7	1.1%	2,922	3	2.3%
Meijer, Inc.	Retail	1,500	8	1.1%	2,100	7	1.7%
MPI Research	Toxicology Contract Research	1,400	9	1.0%			
Portage Public Schools	Education	1,261	10	0.9%	1,162	9	0.9%
General Motors Corporation	Automotive Manufacturing	-	-	-	1,348	8	1.1%
County of Kalamazoo	Government	-	-	-	1,000	10	0.8%
Total		<u>22,653</u>		<u>16.8%</u>	<u>25,380</u>		<u>20.2%</u>

Sources:

City of Kalamazoo, Community Planning and Economic Development
Michigan Department of Labor and Economic Growth - Office of Labor Market Information

Note: Only data for the top ten employers for the respective year are shown above.

- (A) The approximate number of employees represents only full time employees. The Economic Development department obtained data from contacting major employers in the area.
- (B) Percentage of employment from major employers is based on the total labor force for Kalamazoo-Portage Metropolitan Statistical Area (MSA) as employees above are not limited to residents of the City of Kalamazoo. The Kalamazoo-Portage MSA total labor force of 175,941 in 2006 and 162,024 in 1997 were obtained from the Michigan Department of Labor and Economic Growth - Office of Labor Market Information.

CITY OF KALAMAZOO, MICHIGAN
Full-time Equivalent City Government Employees by Function
Last Four Years

	Full-time Equivalent Employees (A)			
	2003	2004	2005	2006
Function/Program				
General government	80	79	75	74
Public safety	307	308	301	296
Economic development	6	6	7	7
Community development and planning	44	43	42	41
Parks and recreation	26	26	20	20
Public works	52	52	44	44
Streets	27	27	28	28
Wastewater	97	97	112	111
Water	95	95	88	88
Total	734	733	717	709

Source: City of Kalamazoo, Management Services Department, Accounting Division

(A) Data represents the number of full-time equivalent positions allocated in the respective year's annual budget.

CITY OF KALAMAZOO
Operating Indicators by Function
Last Two Years

	Year	
	2005	2006 (A)
General Government:		
Assessors:		
Number of real property parcels	24,331	24,404
Cost to assess real property - per parcel	\$16.84	\$16.21
Revenue gained per real property parcel for new development	\$11.65	\$11.37
Number of personal property accounts	3,244	3,030
Cost to assess personal property - per parcel	\$31.67	\$38.38
New personal property accounts	235	270
Treasury:		
Percent of City operation tax collected at year end	86%	86%
Average rate of return on investments	3.19%	4.85%
Public Safety:		
Fire safety:		
Number of residential fires/Number of fatal fires	156/1	150/1
Number of fire inspections completed	2,700	2,700
Kalamazoo Valley Enforcement Team (KVET):		
Number of investigations	844	750
Number of arrests (includes warrants)	1,151	1,175
Operations:		
Number of calls for service	86,477	89,323
Number of persons arrested	9,145	9,868
Traffic citations issued	33,537	32,433
Traffic accidents / OUIL Arrests	3,473 / 293	2,976 / 228
Economic development:		
Number of tax exempt acres redeveloped	21.22	3.26
Private investment leveraged / jobs created	\$9,683,000	\$1,925,000
New taxable value added to the City	\$836,247	\$962,000
Community development and planning:		
Number of rental units inspected/reinspected	12,470	13,000
Number of rental units certified	8,134	7,245
Zoning enforcement actions	174	195
Number of persons impacted by housing-related grant award activities	18,625	20,000
Parks and recreation:		
Number of park reservations and public events	135	190
Number of family programs	14	13
Number of people served through family programs	9,700	11,000
Number of youth development programs	37	40
Number of people served through youth development programs	9,000	10,500
Number of youth served through grant programs	6,900	13,265

CITY OF KALAMAZOO
Operating Indicators by Function, Concluded
Last Two Years

	Year	
	2005	2006 (A)
Public works:		
Number of sidewalk repairs	127	85
Volume of leaves collected (cubic yards)	67,879	70,000
Volume of material recycled (tons)	2,831	2,950
Number of housing units participating in recycling activities	20,000	21,000
Volume of solid waste collected (cubic yards)	9,972	10,000
Streets:		
Number of repairs on major streets	185	190
Value of Repairs per staff hour on major streets	\$298	\$280
Number of repairs on local streets	482	480
Value of Repairs per staff hour on local streets	\$252	\$248
Water:		
Cubic meters of water billed (millions)	22.7	23.3
Average operating cost to produce one cubic meter of water	\$0.451	\$0.460
Number of utility bills mailed	238,689	252,219
Wastewater:		
Cubic meters of wastewater treated (millions)	36.0	33.0
Average operating cost to treat one cubic meter of wastewater	\$0.442	\$0.456
Number of sanitary main line stoppages	14	26

Source: City of Kalamazoo, 2007 Proposed Budget

(A) 2006 data is projected in conjunction with the City of Kalamazoo 2007 proposed budget procedures. Actual data is not currently available.

CITY OF KALAMAZOO, MICHIGAN
Capital Asset Statistics by Function
Last Two Years

Function/Program	Year	
	2005	2006
General government:		
Administration buildings	1	1
Vehicles	2	6
Parking lots	7	7
Parking ramps	3	3
Public safety:		
Public safety headquarters building	1	1
Public safety stations	7	7
Training facility	1	1
Vehicles	193	194
Community development and planning:		
Vehicles	25	25
Parks and recreation:		
Administration building	1	1
Youth development center	1	1
Acreage of parks:		
Mini-parks	8.9	8.9
Neighborhood parks and playgrounds	111.5	111.5
Major community parks	728.5	728.5
Open green space and preserves	137.0	137.0
Number of parks:		
Mini-parks	9	9
Neighborhood parks and playgrounds	14	14
Major community parks	8	8
Open green space and preserves	17	17
Festival site	1	1
Farmers market	1	1
Cemeteries	2	2
Swimming pool	1	1
Beach	1	1
Golf courses	3	3
Vehicles	2	2
Public works:		
Gravel pit	1	1
Salt storage building	-	1
Streets:		
Local streets (miles)	166.29	166.29
Major streets (miles)	82.39	82.39
Traffic signals	135	135

CITY OF KALAMAZOO, MICHIGAN
Capital Asset Statistics by Function, Concluded
Last Two Years

Function/Program	Year	
	2005	2006
Wastewater:		
Sanitary sewers (miles)	291	291
Storm sewers mains (miles)	187.5	187.5
Number of lift stations maintained	52	60
Maximum daily treatment capacity (millions of gallons)	53.5	53.5
Water:		
Water facility	1	1
Storage stations	8	8
Pumping stations	18	18
Booster/bleeder stations	13	13
Water mains (miles)	665	665
Wells in Service	103	103
Maximum daily well capacity (millions of gallons)	66.79	66.79
Storage capacity (millions of gallons)	17.80	17.80
Internal service:		
Public works equipment (A)		
Utility and other vehicles	84	95
Public utilities equipment (B)		
Utility and other vehicles	102	120

Sources: Various city departments.

Note: No capital asset indicators are available for the economic development function.

(A) The Public Works Equipment fund holds assets allocated primarily to general government, community development and planning, parks and recreation, and public works based on actual use.

(B) The Public Utilities Equipment fund holds assets allocated primarily to water and wastewater based on actual use.

CITY OF KALAMAZOO, MICHIGAN
Schedule of Revenues and Expenditures
For Activities Related to the State Construction Code Act
Michigan Public Act 245
For the Year Ending December 31, 2006

REVENUES:		
Building Permits	\$	365,239
Electrical Permits		118,319
Mechanical Permits		74,624
Plumbing Permits		39,365
Other Permits & License Fees		79,345
TOTAL REVENUES		\$ 676,892
EXPENDITURES:		
Wages, Salaries and Benefits		433,281
Supplies		5,374
Services		50,543
Administrative Overhead*		79,378
TOTAL EXPENDITURES		\$ 568,576
EXCESS/(DEFICIT) REVENUES OVER EXPENDITURES		\$ 108,316

*Administrative overhead is computed for all City departments using a full cost-allocation plan. However, it is not charged to General Fund departments. Public Act 245 of 1999, which requires the inclusion of this schedule, also includes overhead as part of the expenditures to be reported.

CITY OF KALAMAZOO, MICHIGAN
Employees' Retirement System
Revenue by Source and Expenses by Type
Last Ten Years

Revenue by Source					
<u>Year Ended December 31</u>	<u>Employee Contributions</u>	<u>Employer Contributions</u>	<u>Employer Contributions as a % of Covered Payroll</u>	<u>Investment Income (Loss)</u>	<u>Total</u>
1997	1,918,690	840,966	2.3%	58,295,099	61,054,755
1998	1,912,918	-	-	40,484,951	42,397,869
1999	1,632,579	-	-	48,075,425	49,708,004
2000	1,464,329	-	-	9,692,656	11,156,985
2001	1,421,887	-	-	5,455,410	6,877,297
2002	1,472,060	-	-	(33,506,436)	(32,034,376)
2003	1,477,702	-	-	91,757,266	93,234,968
2004	1,517,175	-	-	56,524,988	58,042,163
2005	1,458,491	-	-	32,199,000	33,657,492
2006	1,518,785	-	-	66,454,372	67,973,157

Expenses by Type				
<u>Year Ended December 31</u>	<u>Benefits</u>	<u>Administrative Expenses (A)</u>	<u>Refunds</u>	<u>Total</u>
1997	8,101,582	284,899	212,831	8,599,312
1998	8,728,177	326,725	2,187,714 (B)	11,242,616
1999	9,651,489	347,015	342,280	10,340,784
2000	9,787,860	388,328	281,804	10,457,992
2001	11,125,036	350,335	321,125	11,796,496
2002	10,941,864	370,572	216,108	11,528,544
2003	12,206,053	373,945	184,431	12,764,429
2004	13,400,871	381,913	154,161	13,936,945
2005	13,421,166	474,191	305,481	14,200,838
2006	14,256,358	435,034	109,250	14,800,642

(A) Investment advisor fees are reported as a reduction of investment income, rather than as administrative expense.

(B) Includes transfer to Kalamazoo County of \$1,800,000 during 1998 for District Court Employees.

CITY OF KALAMAZOO, MICHIGAN
Taxable Value
Last Five Years

TOTAL TAXABLE VALUE						
Taxable Value as of December 31	Year of State Equalization and Tax Levy	Year Ended December 31	Ad Valorem Taxable Value (1)	Abated Taxable Value (2)	Total Taxable Value	Percent Increase over Prior Year
2001	2002	2002	\$ 1,411,144,730	\$ 15,108,650	\$ 1,426,253,380	4.70%
2002	2003	2003	1,460,450,750	35,442,050	1,495,892,800	4.88%
2003	2004	2004	1,491,444,525	37,257,246	1,528,701,771	2.19%
2004	2005	2005	1,544,579,241	33,836,143	1,578,415,384	3.25%
2005	2006	2006	1,614,675,385	23,178,428	1,637,853,813	3.77%
Per Capita Total Taxable Value for the Fiscal Year Ending December 31, 2006 (3)						\$ 21,230.85

Note: The taxable values represent starting taxable property values rendered by the March Board of Review. The taxable values above do not reflect final adjustments of the Tax Tribunal Judgments, Board of Review decisions, or other adjustments.

(1) Does not include the value of property located within the City's Renaissance Zone which was created pursuant to the provisions of Act 376 of the Michigan Public Acts of 1996, as amended ("Act 376"). Act 376 was designed to stimulate private investment within the Zone through the abatement of certain property, income, and business taxes. For the fiscal year ending December 31, 2006, the Taxable Value of the property located in the Zone totaled \$3,925,833.

(2) Abated taxable value is the equivalent taxable value of property granted tax abatement under Act 198.

(3) Based on the City's 2000 census of 77,145

TOTAL TAXABLE VALUE BY USE AND CLASS

	Years Ended December 31				
	2002	2003	2004	2005	2006
Use					
Commercial	\$468,564,730	\$483,660,050	\$507,767,772	\$534,014,385	\$567,815,005
Industrial	306,436,000	336,919,950	309,894,785	300,634,764	284,054,454
Residential	651,252,650	675,312,800	711,039,214	743,766,235	785,984,354
	<u>\$1,426,253,380</u>	<u>\$1,495,892,800</u>	<u>\$1,528,701,771</u>	<u>\$1,578,415,384</u>	<u>\$1,637,853,813</u>
Class					
Real	\$1,184,635,880	\$1,237,383,700	\$1,296,480,721	\$1,351,560,784	\$1,406,290,065
Personal	241,617,500	258,509,100	232,221,050	226,854,600	231,563,748
	<u>\$1,426,253,380</u>	<u>\$1,495,892,800</u>	<u>\$1,528,701,771</u>	<u>\$1,578,415,384</u>	<u>\$1,637,853,813</u>

PERCENT OF TOTAL TAXABLE VALUE BY USE AND CLASS

	Years Ended December 31				
	2002	2003	2004	2005	2006
Use					
Commercial	32.85%	32.33%	33.22%	33.83%	34.67%
Industrial	21.49%	22.52%	20.27%	19.05%	17.34%
Residential	45.66%	45.14%	46.51%	47.12%	47.99%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Class					
Real	83.06%	82.72%	84.81%	85.63%	85.86%
Personal	16.94%	17.28%	15.19%	14.37%	14.14%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Source: City of Kalamazoo, Management Services Department, Assessor Division

CITY OF KALAMAZOO, MICHIGAN
State Equalized Valuation
Last Five Years

Total State Equalized Value (SEV)						
Assessed Value as of December 31	Year of State Equalization and Tax Levy	Year Ended December 31	Ad Valorem SEV Value (1)	Abated SEV Value (2)	Total SEV Value	Percent Increase
2001	2002	2002	\$ 1,580,375,980	\$ 28,091,000	\$ 1,608,466,980	4.30%
2002	2003	2003	1,667,513,680	35,850,050	1,703,363,730	5.90%
2003	2004	2004	1,732,394,900	37,296,800	1,769,691,700	3.89%
2004	2005	2005	1,795,070,620	33,975,900	1,829,046,520	3.35%
2005	2006	2006	1,895,004,224	23,390,200	1,918,394,424	4.88%
Per Capita Total SEV for the Fiscal Year Ending December 31, 2006 (3)						\$ 24,867.39

(1) Does not include the value of property located within the City's Renaissance Zone which was created pursuant to the provisions of Act 376 of the Michigan Public Acts of 1996, as amended ("Act 376"). Act 376 was designed to stimulate private investment within the Zone through the abatement of certain property, income, and business taxes. For the fiscal year ending December 31, 2006, the SEV of the property located in the Zone totaled \$4,605,188.

(2) Abated taxable value is the equivalent taxable value of property granted tax abatement under Act 198.

(3) Based on the City's 2000 census of 77,145

Total SEV by Use and Class						
	Years Ended December 31					
	2002	2003	2004	2005	2006	
Use						
Commercial	\$500,713,730	\$528,423,500	\$576,772,600	\$593,461,785	\$648,762,947	
Industrial	326,477,700	346,110,900	316,876,700	271,393,700	291,139,765	
Residential	781,275,550	828,829,330	876,042,400	930,215,135	983,096,900	
	<u>\$1,608,466,980</u>	<u>\$1,703,363,730</u>	<u>\$1,769,691,700</u>	<u>\$1,795,070,620</u>	<u>\$1,922,999,612</u>	
Class						
Real	\$1,369,591,030	\$1,444,661,180	\$1,538,229,150	\$1,578,198,420	\$1,690,650,764	
Personal	238,875,950	258,702,550	231,462,550	216,872,200	232,348,848	
	<u>\$1,608,466,980</u>	<u>\$1,703,363,730</u>	<u>\$1,769,691,700</u>	<u>\$1,795,070,620</u>	<u>\$1,922,999,612</u>	

Percent of Total SEV by Use and Class						
	Years Ended December 31					
	2002	2003	2004	2005	2006	
Use						
Commercial	31.13%	31.02%	32.59%	33.06%	33.74%	
Industrial	20.30%	20.32%	17.91%	15.12%	15.14%	
Residential	48.57%	48.66%	49.50%	51.82%	51.12%	
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	
Class						
Real	85.15%	84.81%	86.92%	87.92%	87.92%	
Personal	14.85%	15.19%	13.08%	12.08%	12.08%	
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	

Source: City of Kalamazoo, Management Services Department, Assessor Division

CITY OF KALAMAZOO, MICHIGAN
Maximum and Actual Tax Rates
December 31, 2006

<u>Millage Classification</u>	<u>Millage Authorized</u>	<u>Cumulative Millage Reduction Fraction (A)</u>	<u>Maximum Allowable Millage</u>	<u>Actual Millage Levied</u>
Operating	20.0000	0.9943	19.1606	19.1606
Refuse Collection and Disposal	3.0000	0.9943	2.8741	1.7500
Mass Transportation	<u>1.0000</u>	0.9943	<u>0.9943</u>	<u>0.9943</u>
	<u>24.0000</u>		<u>23.0290</u>	<u>21.9049</u>

Source: City of Kalamazoo, Management Services Department, Treasury Division

(A) The cumulative millage reduction fraction reduces the authorized millage based on the Headlee amendment which limits the rate of growth of property tax revenue to the consumers price index.

CITY OF KALAMAZOO, MICHIGAN
Revenue Sharing Payments from the State of Michigan
Last Five Years

	2002	2003	2004	2005	2006
Constitutional	\$ 5,058,883	\$ 5,066,411	\$ 5,067,393	\$ 5,250,646	\$ 5,270,861
Statutory	7,151,236	6,214,348	5,245,601	5,082,985	4,920,760
Total payments received	<u>\$ 12,210,119</u>	<u>\$ 11,280,759</u>	<u>\$ 10,312,994</u>	<u>\$ 10,333,631</u>	<u>\$ 10,191,621</u>
Disbursement to other governmental units (1)	<u>\$ (243,183)</u>	<u>\$ (243,183)</u>	<u>\$ (243,183)</u>	<u>\$ (243,183)</u>	<u>\$ (243,183)</u>
Net revenue sharing	<u><u>\$ 11,966,936</u></u>	<u><u>\$ 11,037,576</u></u>	<u><u>\$ 10,069,811</u></u>	<u><u>\$ 10,090,448</u></u>	<u><u>\$ 9,948,438</u></u>
% of General Fund revenue (2)	25.4%	23.3%	21.3%	20.4%	18.8%

Source: City of Kalamazoo, Management Services Department, Accounting Division

- (1) The City receives revenue sharing payments on behalf of the Kalamazoo Library, Parchment Library, Metro Transit, and Downtown Development Authority.
- (2) The percentage of General Fund revenue is calculated using the non-GAAP, budgetary basis of actual revenues.

CITY OF KALAMAZOO, MICHIGAN
Receipts from the Michigan Transportation Fund
Last Four Years

		Years Ended December 31			
		2003	2004	2005	2006
<u>Cash Basis</u>					
Major Streets		\$4,107,782	\$4,363,410	\$4,163,652	\$4,145,499
Local Streets		1,146,596	1,219,380	1,164,396	1,159,416
		<u>\$ 5,254,378</u>	<u>\$ 5,582,790</u>	<u>\$ 5,328,048</u>	<u>\$ 5,304,915</u>
		Years Ended December 31			
		2003	2004	2005	2006
<u>Accrual Basis</u>					
Major Streets		\$4,154,486	\$4,351,527	\$4,154,921	\$4,124,532
Local Streets		1,159,188	1,216,600	1,162,004	1,153,481
		<u>\$ 5,313,674</u>	<u>\$ 5,568,127</u>	<u>\$ 5,316,925</u>	<u>\$ 5,278,013</u>

Source: City of Kalamazoo, Management Services Department, Accounting Division

CITY OF KALAMAZOO, MICHIGAN
Labor Contracts
December 31, 2006

Bargaining Unit	Membership	Contract Expiration Date
American Federation of State, County and Municipal Employees	162	October 2, 2008
Kalamazoo Municipal Employees Association	128	December 31, 2008
Kalamazoo Police Supervisors Association (Captains, Lieutenants and Sergeants)	49	December 31, 2005*
Kalamazoo Police Officers Association (Officers and Detectives)	220	December 31, 2005*
Amalgamated Transit Union (Bus Drivers and Mechanics)	83	February 13, 2007
Non-Union	177	Not Applicable
Total Employees	819	

Source: City of Kalamazoo, Human Resources

*In process of negotiation at December 31, 2006.

CITY OF KALAMAZOO, MICHIGAN
Employment Statistics
Last Ten Years

City of Kalamazoo					State of Michigan			
	Employed	Unemployed	Total Labor Force	Unemployed as a % of Labor Force	Employed	Unemployed	Total Labor Force	Unemployed as a % of Labor Force
1997	37,921	1,665	39,586	4.2%	4,749,000	214,000	4,963,000	4.3%
1998	40,278	1,593	41,871	3.8%	4,810,000	198,000	5,008,000	4.0%
1999	40,930	1,688	42,618	4.0%	4,897,000	192,000	5,089,000	3.8%
2000	37,838	1,648	39,486	4.2%	4,953,000	190,000	5,143,000	3.7%
2001	37,207	2,257	39,464	5.7%	4,876,000	268,000	5,144,000	5.2%
2002	36,289	2,964	39,253	7.6%	4,725,000	315,000	5,040,000	6.3%
2003	36,167	2,964	39,131	7.6%	4,681,000	358,000	5,039,000	7.1%
2004	36,395	3,126	39,521	7.9%	4,695,000	356,000	5,051,000	7.0%
2005	37,135	2,869	40,004	7.2%	4,726,000	346,000	5,072,000	6.8%
2006	37,464	2,902	40,366	7.2%	4,730,000	351,000	5,081,000	6.9%

Source: Michigan Department of Labor and Economic Growth - Office of Labor Market Information

Note: Unemployment data represents annual averages not adjusted for seasonal changes. 1997-2005 data is updated to reflect current labor data available.

CITY OF KALAMAZOO, MICHIGAN

WATER SUPPLY SYSTEM

Water Supply Franchises

<u>Franchisor</u>	<u>Effective Date</u>	<u>Year of Renewal</u>
Comstock Township	23-Dec-64	1994*
Cooper Township	18-Nov-68	1998*
Kalamazoo Township	30-Jan-70	2000*
Oshtemo Township	8-Feb-65	1995*
Pavilion Township	18-Nov-68	1998*
City of Portage (1)	28-May-74	2004*
City of Portage (1)	21-Apr-80	2010
City of Portage (1)	10-Jul-89	2019
Richland Township	28-Feb-72	2002*
Richland Village	26-Jul-76	2006*
Texas Township	11-Dec-67	1997*

Source: City of Kalamazoo, Public Services Department, Water Division

* For any contracts which have expired, the City and the affected Township(s) are continuing their relationship under the continuation continuation portion of the agreement(s).

(1) The City of Portage has three agreements due to the addition of new service areas at different times.

CITY OF KALAMAZOO, MICHIGAN

WATER SUPPLY SYSTEM

Approximate Number of Water Supply Customers
by Location and User Classification
Last Five Years

<u>Customer Location and Classification</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
City:					
Residential	18,115	18,148	18,102	18,101	18,094
Commercial / Industrial	4,907	4,939	4,907	4,973	5,040
Total City	<u>23,022</u>	<u>23,087</u>	<u>23,009</u>	<u>23,074</u>	<u>23,134</u>
Out City:					
Residential	14,165	14,487	14,970	15,393	15,889
Commercial / Industrial	3,896	4,013	4,198	4,226	4,510
Total Out City	<u>18,061</u>	<u>18,500</u>	<u>19,168</u>	<u>19,619</u>	<u>20,399</u>
Total System:					
Residential	32,280	32,635	33,072	33,494	33,983
Commercial / Industrial	8,803	8,952	9,105	9,199	9,550
Total System	<u>41,083</u>	<u>41,587</u>	<u>42,177</u>	<u>42,693</u>	<u>43,533</u>

Source: City of Kalamazoo, Public Services Department, Water Division

- (1) Data listed represents the number of meters and/or fire protection lines/hydrants for each year.

CITY OF KALAMAZOO, MICHIGAN

WATER SUPPLY SYSTEM
Approximate Number of Water Customers by Location
and Size of Meter or Fire Protection Line/Hydrant

	<u>2005</u>	<u>2006</u>
<u>Meter Location and Size</u>		
City:		
5/8" - 3/4"	16,703	16,579
1"	2,168	2,254
1 1/2"	236	245
2"	1,049	1,063
3"	183	187
4"	98	92
6"	11	12
8"	0	1
Total City	<u>20,448</u>	<u>20,433</u>
Out City:		
5/8" - 3/4"	8,485	8,446
1"	6,952	7,505
1 1/2"	306	324
2"	825	851
3"	113	117
4"	53	54
6"	10	10
8"	0	0
Total Out City	<u>16,744</u>	<u>17,307</u>
Total Meters	<u>37,192</u>	<u>37,740</u>
<u>Location and Size of Fire Protection Line/Hydrant</u>		
City:		
4"	156	168
6"	135	139
8"	78	78
10"	1	1
Hydrants	2,256	2,315
Total City	<u>2,626</u>	<u>2,701</u>
Out City:		
4"	140	155
6"	82	86
8"	63	66
10"	4	4
Hydrants	2,586	2,781
Total Out City	<u>2,875</u>	<u>3,092</u>
Total Fire Protection	<u>5,501</u>	<u>5,793</u>
Total Service Connections	<u>42,693</u>	<u>43,533</u>

Source: City of Kalamazoo, Public Services Department, Water Division

CITY OF KALAMAZOO, MICHIGAN

WATER SUPPLY SYSTEM
Water Supply Ready-to-Serve Charges by Meter Location and Size
Last Five Years

<u>Meter Location and Size</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
City (Quarterly Billed Accounts):					
5/8" Meter	\$ 12.03	\$ 12.03	\$ 11.93	\$ 14.92	\$ 16.35
1" Meter	15.35	15.35	14.86	18.84	20.87
1-1/2" Meter	18.67	18.67	17.78	22.75	25.40
2" Meter	27.81	27.81	25.83	33.51	37.85
City (Monthly Billed Accounts):					
5/8" Meter	6.49	6.49	7.06	8.40	8.80
1" Meter	7.60	7.60	8.03	9.71	10.31
1-1/2" Meter	8.70	8.70	9.01	11.01	11.82
2" Meter	11.75	11.75	11.69	14.60	15.97
3" Meter	34.18	34.18	31.43	41.01	46.53
4" Meter	42.49	42.49	38.75	50.79	57.85
6" Meter	61.87	61.87	55.81	73.62	84.25
8" Meter	84.03	84.03	75.31	99.70	114.43
City (Monthly Fire Protection Charge):					
4" Detector Check	17.27	17.27	15.94	15.57	15.27
6" Detector Check	21.52	21.52	19.82	19.45	19.02
8" Detector Check	29.77	29.77	27.28	27.29	26.56
10" Detector Check	59.81	59.81	54.00	59.87	57.14
Fire Hydrant	3.33	3.33	3.33	3.33	3.33
Out City (Quarterly Billed Accounts):					
5/8" Meter	13.84	13.84	14.62	18.61	24.18
1" Meter	17.89	17.89	18.62	23.99	31.84
1-1/2" Meter	21.94	21.94	22.62	29.38	39.50
2" Meter	33.07	33.07	33.63	44.20	60.57
Out City (Monthly Billed Accounts):					
5/8" Meter	7.09	7.09	7.95	9.63	11.41
1" Meter	8.44	8.44	9.29	11.42	13.97
1-1/2" Meter	9.79	9.79	10.62	13.22	16.52
2" Meter	13.50	13.50	14.29	18.16	23.54
3" Meter	40.83	40.83	41.30	54.52	75.26
4" Meter	50.95	50.95	51.30	67.99	94.41
6" Meter	74.56	74.56	74.64	99.41	139.10
8" Meter	101.55	101.55	101.31	135.33	190.17
Out City (Monthly Fire Protection Charge):					
4" Detector Check	25.18	25.18	25.30	26.92	26.98
6" Detector Check	30.45	30.45	31.09	33.30	32.92
8" Detector Check	40.65	40.65	42.12	45.82	44.50
10" Detector Check	77.40	77.40	79.80	93.28	87.38
Fire Hydrant	3.33	3.33	3.33	3.33	3.33

Source: City of Kalamazoo, Public Services Department, Water Division

CITY OF KALAMAZOO, MICHIGAN

WATER SUPPLY SYSTEM

Water Supply Commodity Charges by Meter

Location and Classification (1)

Last Five Years

<u>Meter Location and Classification</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
City:					
Residential	\$0.262	\$0.262	\$0.261	\$0.212	\$0.195
Multifamily	0.186	0.186	0.174	0.144	0.138
Commercial/Industrial	0.219	0.219	0.206	0.169	0.166
Fire Protection - First 15 M3	0.219	0.219	0.206	0.169	0.166
Fire Protection - Over 15 M3	0.657	0.657	0.618	0.507	0.498
Seasonal Uses	0.467	0.467	0.442	0.345	0.327
Out City:					
Residential	\$0.402	\$0.402	\$0.457	\$0.479	\$0.460
Multifamily	0.288	0.288	0.300	0.317	0.310
Commercial/Industrial	0.333	0.333	0.354	0.373	0.368
Fire Protection - First 15 M3	0.333	0.333	0.354	0.373	0.368
Fire Protection - Over 15 M3	0.999	0.999	1.062	1.119	1.104
Seasonal Uses	0.743	0.743	0.854	0.892	0.894

Source: City of Kalamazoo, Public Services Department, Water Division

(1) per cubic meter

CITY OF KALAMAZOO, MICHIGAN

**WATER SUPPLY SYSTEM
History of System Rate Increases**

<u>Date Increase Effective</u>	<u>Percent Increase (1)</u>
January 1, 1984	5.00%
February 8, 1985	7.60%
March 2, 1987	5.00%
January 1, 1991	8.00%
January 1, 1993	8.00%
January 1, 1995	5.00%
March 3, 1997	5.00%
February 1, 1998	4.90%
March 15, 1999	2.00%
July 1, 2001	2.00%
February 1, 2002	2.00%
April 30, 2004	3.00%
March 4, 2005	3.00%
March 16, 2006	4.50%

Source: City of Kalamazoo, Public Services Department, Water Division

(1) Reflects anticipated increase in total system revenues. The actual change in rates by meter location and classification vary.

CITY OF KALAMAZOO
WATER SUPPLY SYSTEM
Water Supply Volume as Pumped and Billed (1)
Last Five Years

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Pumped	27,801,468	26,627,560	25,794,132	27,341,264	25,118,117
Billed	<u>25,568,124</u>	<u>22,717,891</u>	<u>22,715,384</u>	<u>24,137,318</u>	<u>22,879,533</u>
Unaccounted (2)	<u><u>2,233,344</u></u>	<u><u>3,909,669</u></u>	<u><u>3,078,748</u></u>	<u><u>3,203,946</u></u>	<u><u>2,238,584</u></u>
Unaccounted as a Percent of Pumped (3)	<u><u>8.03%</u></u>	<u><u>14.68%</u></u>	<u><u>11.94%</u></u>	<u><u>11.72%</u></u>	<u><u>8.91%</u></u>

Source: City of Kalamazoo, Public Services Department, Water Division

- (1) Measured in Cubic Meters
- (2) Unaccounted water volume is due primarily to the flushing of lines, pressure releases during routine maintenance and, to a diminishing degree, line loss and slow meters. As part of its quality control efforts, the City routinely flushes transmission lines.
- (3) From 2000 to 2002 the number of main breaks averaged approximately 78 per year. In 2003, the number of main breaks totaled 103, an increase of 32.1% over the average. The unusually large number of breaks attributed to the higher percentage of unaccounted water for the year.

CITY OF KALAMAZOO, MICHIGAN

WATER SUPPLY SYSTEM
Water Volume as Billed by Meter
Location and Classification
Last Five Years

<u>Meter Location and Classification</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
City:					
Residential	5,185,699	4,678,603	4,702,932	4,776,832	4,482,863
Multifamily	2,359,708	2,026,972	2,057,123	2,013,828	1,936,672
Commercial/Industrial	7,369,718	6,515,605	6,375,474	6,434,460	6,296,658
Fire Protection	24,145 ⁽³⁾	17,526	13,226	2,020	5,849
Seasonal Uses (1)	682,097	533,360	427,194	564,031	482,159
Total City	<u>15,621,367</u>	<u>13,772,066</u>	<u>13,575,949</u>	<u>13,791,171</u>	<u>13,204,201</u>
Out City:					
Residential	5,507,974	4,863,779	4,999,192	5,799,993	5,398,303
Multifamily	1,573,023	1,490,873	1,542,022	1,621,964	1,546,052
Commercial/Industrial	2,332,723	2,163,269	2,206,978	2,355,603	2,279,672
Fire Protection	1,977	4,417	6,734	7,296	13,799
Seasonal Uses (1)	531,060	423,487	384,509	561,291	437,506
Total Out City	<u>9,946,757</u>	<u>8,945,825</u>	<u>9,139,435</u>	<u>10,346,147</u>	<u>9,675,332</u>
Total System:					
Residential	10,693,673	9,542,382	9,702,124	10,576,825	9,881,166
Multifamily	3,932,731	3,517,845	3,599,145	3,635,792	3,482,724
Commercial/Industrial	9,702,441	8,678,874	8,582,452	8,790,063	8,576,330
Fire Protection	26,122	21,943	19,960	9,316	19,648
Seasonal Uses (2)	1,213,157	956,847	811,703	1,125,322	919,665
Total System	<u>25,568,124</u>	<u>22,717,891</u>	<u>22,715,384</u>	<u>24,137,318</u>	<u>22,879,533</u>

Source: City of Kalamazoo, Public Services Department, Water Division

(1) Water volume is measured in cubic meters.

(2) Represents flow relating to sprinkler systems which are metered separately.

(3) A correction was made in 2000 that related to water volume that occurred in 1999. This correction exceeded the volume for 2000 and caused the net water volume for the year to appear as negative.

CITY OF KALAMAZOO, MICHIGAN

WATER SUPPLY SYSTEM

Average and Peak Daily Water Supply Volume (1)

Last Five Years

	2002	2003	2004	2005	2006
Average Daily Water Supply	20.120	19.274	18.620	19.791	18.181
Peak Daily Water Supply	40.793	40.401	32.868	35.964	30.461
Peak as a Percent of Average	202.75%	209.61%	176.52%	181.72%	167.54%

Source: City of Kalamazoo, Public Services Department, Water Division

(1) Measured in millions of gallons per day.

CITY OF KALAMAZOO, MICHIGAN

WATER SUPPLY SYSTEM
Water Supply Revenue as Billed by Meter
Location and Classification
Last Five Years

<u>Meter Location and Classification</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
City:					
Residential	\$ 2,214,094	\$ 2,053,156	\$ 2,105,124	\$ 2,077,008	\$ 2,032,474
Multifamily	556,324	494,134	480,151	440,957	428,355
Commercial/Industrial	1,871,601	1,685,351	1,585,398	1,428,144	1,377,491
Fire Protection	132,630	124,095	114,634	108,050	110,313
Seasonal Uses	353,737	286,379	227,223	240,876	207,027
Total City	<u>5,128,386</u>	<u>4,643,115</u>	<u>4,512,530</u>	<u>4,295,035</u>	<u>4,155,660</u>
Out City:					
Residential	\$ 3,057,363	\$ 2,780,762	\$ 3,166,987	\$ 3,970,922	\$ 4,107,645
Multifamily	566,432	536,870	576,265	668,041	689,119
Commercial/Industrial	933,956	884,258	941,205	1,094,782	1,128,341
Fire Protection	101,001	111,297	121,082	149,582	158,730
Seasonal Uses	425,357	344,883	358,216	509,619	457,896
Total Out City	<u>5,084,109</u>	<u>4,658,070</u>	<u>5,163,755</u>	<u>6,392,946</u>	<u>6,541,731</u>
Total System:					
Residential	\$ 5,271,457	\$ 4,833,918	\$ 5,272,111	\$ 6,047,930	\$ 6,140,119
Multifamily	1,122,756	1,031,004	1,056,416	1,108,998	1,117,474
Commercial/Industrial	2,805,557	2,569,609	2,526,603	2,522,926	2,505,832
Fire Protection	233,631	235,392	235,716	257,632	269,043
Seasonal Uses	779,094	631,262	585,439	750,495	664,923
Total System	<u>\$ 10,212,495</u>	<u>\$ 9,301,185</u>	<u>\$ 9,676,285</u>	<u>\$ 10,687,981</u>	<u>\$ 10,697,391</u>

Source: City of Kalamazoo, Public Services Department, Water Division

CITY OF KALAMAZOO, MICHIGAN

WATER SUPPLY SYSTEM
Ten Largest Water Customers by Volume and Revenue
Year Ended December 31, 2006

<u>Customer</u>	<u>Principal Product or Service</u>	<u>Water Volume (cubic meters)</u>	<u>Percent of Total (1)</u>	<u>Water Revenue</u>	<u>Percent of Total (2)</u>
Graphic Packaging	Paper Products	1,318,144	5.8%	\$ 223,635	2.1%
Western Michigan University	Higher Education	738,189	3.2%	198,879	1.9%
Pfizer Corporation	Pharmaceuticals	525,345	2.3%	148,130	1.4%
Occidental Development	Real Estate Development	134,017	0.6%	79,866	0.7%
Kalsec Inc.	Food Grade Flavoring	195,496	0.9%	78,950	0.7%
Borgess Medical Center	Hospital	497,044	2.2%	67,058	0.6%
Pavilion Estates	Mobile Home Park	118,920	0.5%	57,113	0.5%
Kalamazoo Public Schools	Education	110,831	0.5%	53,837	0.5%
Bronson Methodist Hospital	Hospital	224,871	1.0%	48,041	0.4%
Concord Place Apartments	Apartment Complex	121,750	0.5%	47,502	0.4%
		<u>3,984,607</u>	<u>17.4%</u>	<u>\$ 1,003,011</u>	<u>9.4%</u>

Source: City of Kalamazoo, Public Services Department, Water Division

(1) Based on water volume of 22,715,384 cubic meters.

(2) Based on Water System billed revenue of \$9,676,285.

CITY OF KALAMAZOO, MICHIGAN

**WASTEWATER SYSTEM
Wastewater Service Agreements**

<u>Municipality</u>	<u>Date of Execution</u>	<u>Year to be Renewed</u>
City of Galesburg (2)	29-Jul-85	2025
City of Parchment (2)	23-Jul-85	2015
City of Portage (2)	27-Jan-86	2016
Village of Augusta (2)	26-Mar-81	2021
Village of Mattawan (2)	18-Nov-96	2026
Village of Vicksburg (2)	16-Apr-85	2015
Charleston Township (1)	3-Jul-98	2016
Comstock Township (1)	16-Sep-80	2010
Cooper Township (1)	10-Oct-83	2013
Kalamazoo Township (1)	6-Oct-80	2010
Oshtemo Township (1)	8-Oct-84	2014
Pavilion Township (1)	16-Mar-81	2011
Schoolcraft Township (1)	25-Oct-82	2012
Texas Township (1)	22-Oct-84	2014
Gull Lake Sewer Authority (2)	15-Sep-80	2010
Barry County		
Prairieville Township		
Richland Township		
Ross Township		

Source: City of Kalamazoo, Public Services Department, Wastewater Division

(1) Served by a retail service agreement.

(2) Served by a wholesale service agreement.

CITY OF KALAMAZOO, MICHIGAN

WASTEWATER SYSTEM

**Approximate Number of Wastewater Customers
by Location and User Classification
Last Five Years**

<u>Customer Location and Classification</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<u>Retail Customers</u>					
<i>In-City Retail Customers</i>					
Residential	16,678	16,719	16,724	16,693	16,699
Commercial	2,819	2,839	2,815	2,932	2,908
Industrial	182	155	153	152	165
Sub-Total	<u>19,679</u>	<u>19,713</u>	<u>19,692</u>	<u>19,777</u>	<u>19,772</u>
<i>Out-City Retail Customers</i>					
Residential	7,734	7,946	8,259	8,486	8,876
Commercial	1,226	1,251	1,265	1,378	1,411
Industrial	70	49	49	46	47
Sub-Total	<u>9,030</u>	<u>9,246</u>	<u>9,573</u>	<u>9,910</u>	<u>10,334</u>
Total Retail Customers	<u>28,709</u>	<u>28,959</u>	<u>29,265</u>	<u>29,687</u>	<u>30,106</u>
<u>Wholesale Customers</u>					
Industries	2	2	2	2	2
Wholesale Municipal Customers	8	8	8	8	8
Dewatering Accounts	12	10	7	6	8
Septage Haulers	20	9	20	21	8
Sub-Total	<u>42</u>	<u>29</u>	<u>37</u>	<u>37</u>	<u>26</u>
<u>Flat Rate Customers</u>	<u>1,325</u>	<u>1,380</u>	<u>1,412</u>	<u>1,442</u>	<u>1,434</u>
Total Sewer Customers	<u>30,076</u>	<u>30,368</u>	<u>30,714</u>	<u>31,166</u>	<u>31,566</u>

Source: City of Kalamazoo, Public Services Department, Wastewater Division

CITY OF KALAMAZOO, MICHIGAN

WASTEWATER SYSTEM

Number of Retail Customers by Meter Size

Last Five Years

<u>Meter Size</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
5/8" - 3/4"	22,583	22,644	22,561	22,475	22,410
1"	3,918	4,106	4,449	4,746	5,208
1-1/2"	368	384	385	421	443
2"	1,426	1,427	1,466	1,598	1,596
3"	264	256	260	288	293
4"	138	130	132	146	139
6"	12	12	12	13	17
	<u>28,709</u>	<u>28,959</u>	<u>29,265</u>	<u>29,687</u>	<u>30,106</u>

Source: City of Kalamazoo, Public Services Department, Wastewater Division

CITY OF KALAMAZOO, MICHIGAN

WASTEWATER SYSTEM
Wastewater Ready to Serve Charges by
Water Meter Location and Size
Last Five Years

<u>Meter Location and Size</u>	<u>1999 - 2001 (1)</u>		<u>2001- 2003 (2)</u>		<u>2003- 2006 (3)</u>	
	<u>Monthly</u>	<u>Quarterly</u>	<u>Monthly</u>	<u>Quarterly</u>	<u>Monthly</u>	<u>Quarterly</u>
City:						
5/8"	\$ 6.41	\$ 8.27	\$ 6.51	\$ 7.77	\$ 6.87	\$ 8.00
3/4"	6.49	8.55	6.57	7.96	6.93	8.17
1"	6.77	9.39	6.77	8.53	7.10	8.68
1-1/2"	7.15	10.51	7.02	9.28	7.33	9.36
2"	8.18	13.59	7.71	11.36	7.94	11.23
3"	15.73	36.26	12.80	26.65	12.53	24.96
4"	18.54	44.66	14.69	32.31	14.22	30.05
6"	25.06	64.24	19.09	45.52	18.18	41.93
Out City:						
5/8"	\$ 6.59	\$ 10.24	\$ 6.91	\$ 10.25	\$ 7.50	\$ 11.30
3/4"	6.77	10.79	7.08	10.76	7.69	11.88
1"	7.31	12.43	7.59	12.27	8.26	13.59
1-1/2"	8.05	14.63	8.25	14.27	9.02	15.87
2"	10.06	20.66	10.09	19.80	11.11	22.14
3"	24.86	65.06	23.64	60.44	26.51	68.34
4"	30.34	81.51	28.66	75.49	32.21	85.45
6"	43.13	119.87	40.36	110.61	45.53	125.37

Source: City of Kalamazoo, Public Services Department, Wastewater Division

(1) Rate change effective September 27, 1999.

(2) Rate change effective July 1, 2001.

(3) Rate change effective April 30, 2004.

CITY OF KALAMAZOO, MICHIGAN

WASTEWATER SYSTEM

Wastewater Treatment Charges by Customer Classification (1)

Last Five Years

Fiscal Years Ended December 31	In-City Retail Customers	Out-City Retail Customers	Wholesale Municipal Customers	City of Galesburg (2)	Septage Haulers	In-City Dewatering Customers	Out-City Dewatering Customers
1999-2000 (3)	0.299	0.446	0.244	0.268	13.919	0.268	0.459
2000-2003 (4)	0.282	0.488	0.259	0.291	17.802	0.258	0.501
2003-2006 (5)	0.288	0.561	0.312	0.351	27.978	0.261	0.574

Source: City of Kalamazoo, Public Services Department, Wastewater Division

(1) Per cubic meter

(2) Since the City of Galesburg does not have a master meter, the wastewater treatment charge is adjusted for the cost of infiltration and inflow, which is water other than wastewater entering the System.

(3) Rate change effective September 27, 1999.

(4) Rate change effective July 1, 2001.

(5) Rate change effective April 30, 2004.

CITY OF KALAMAZOO, MICHIGAN

WASTEWATER SYSTEM
Wastewater Treatment Volume as Billed by
Customer and User Classification (1)
Last Five Years

	2002	2003	2004	2005	2006
Retail Customers					
Residential	6,566,366	6,353,479	6,075,815	5,940,966	5,539,562
Commercial	9,081,189	8,112,063	8,158,941	8,393,078	8,265,253
Industrial	1,815,409	1,898,414	1,734,399	1,896,469	1,674,535
Sub-Total	17,462,964	16,363,956	15,969,155	16,230,513	15,479,350
Wholesale Customers					
Industries	7,223,118	6,937,039	6,238,942	6,052,304	5,047,683
Wholesale Municipal	7,594,052	7,984,969	8,126,901	8,096,596	8,047,185
Dewatering Accounts	641,582	187,542	124,769	176,306	224,917
Septage Haulers	25,569	23,847	12,559	10,173	14,109
Sub-Total	15,484,321	15,133,397	14,503,171	14,335,379	13,333,894
Total Wastewater Billed	32,947,285	31,497,353	30,472,326	30,565,892	28,813,244

Source: City of Kalamazoo, Public Services Department, Wastewater Division

(1) Measured in Cubic Meters.

CITY OF KALAMAZOO, MICHIGAN

WASTEWATER SYSTEM

Wastewater Volume as Treated and Billed (1)

Last Five Years

	2002	2003	2004	2005	2006
Metered Wastewater Volume	38,959,122	36,869,796	36,075,759	36,859,197	33,119,030
Wastewater Consumption as Billed	32,947,285	31,497,353	30,472,326	30,565,892	28,813,244
Difference (2)	6,011,837	5,372,443	5,603,433	6,293,305	4,305,786
Difference as a % of Metered Wastewater Volume	15.4%	14.6%	15.5%	17.1%	13.0%

Source: City of Kalamazoo, Public Services Department, Wastewater Division

(1) Measured in Cubic Meters.

(2) The difference between the wastewater volume as treated and billed is due, in part, to slow meters and infiltration and inflow which is water other than wastewater that enters the System.

CITY OF KALAMAZOO, MICHIGAN

WASTEWATER SYSTEM

Average and Peak Daily Wastewater Treatment Volume (1)

Last Five Years

	2002	2003	2004	2005	2006
Average Daily Sewage Disposal Volume	28.2	26.7	26.0	26.7	24.0
Peak Daily Sewage Disposal Volume	36.6	32.7	33.6	42.7	39.5
Peak as a Percent of Average	129.79%	122.47%	129.23%	159.93%	164.72%

Source: City of Kalamazoo, Public Services Department, Wastewater Division

(1) Measured in millions of gallons per day.

CITY OF KALAMAZOO, MICHIGAN
WASTEWATER SYSTEM
Ten Largest Customers
by Wastewater System Revenue and Volume as Billed
Year Ended December 31, 2006

Customer	Principal Product or Service	Wastewater Volume (cubic meters)	Percent of Total (1)	Wastewater Treatment Revenue	Wastewater Surcharge Revenue	Wastewater System Revenue	Percent of Total (2)
Pfizer	Pharmaceuticals	4,041,997	13.9%	\$ 662,888	\$ 2,809,428	\$ 3,472,315	21.4%
City of Portage	Municipality	5,869,694	20.2%	1,831,345	-	1,831,345	11.3%
Graphic Packaging	Paper Products	1,005,740	3.5%	74,425	827,056	901,480	5.6%
Kalsec	Food Grade Flavorings	145,890	0.5%	23,321	574,755	598,076	3.7%
Gull Lake Sewer Authority District	Municipality	979,889	3.4%	305,728	-	305,728	1.9%
Cytec	Chemicals	284,831	1.0%	33,325	243,031	276,356	1.7%
Western Michigan University	Higher Education	586,051	2.0%	168,783	-	168,783	1.0%
JR7 (Graphic Packaging)	Paper Products	98,486	0.3%	11,523	143,854	155,377	1.0%
Hazelton	Research	52,551	0.2%	20,705	109,236	129,941	0.8%
Mattawan	Municipality	358,099	1.2%	111,727	-	111,727	0.7%
		<u>13,423,228</u>	<u>46.3%</u>	<u>\$ 3,243,769</u>	<u>\$ 4,707,360</u>	<u>\$ 7,951,129</u>	<u>49.1%</u>

Source: City of Kalamazoo, Public Services Department, Wastewater Division

(1) Based on wastewater treatment volume of 30,565,892 cubic meters.

(2) Based on Wastewater System billed revenue of \$19,030,333

CITY OF KALAMAZOO, MICHIGAN

WASTEWATER SYSTEM
Wastewater Revenue as Billed
by Meter Location and Classification
Last Five Years

<u>Meter Location and Classification</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
City:					
Residential	\$ 1,747,103	\$ 1,659,454	\$ 1,674,809	\$ 1,654,702	\$ 1,602,182
Commercial	2,030,099	1,758,104	1,836,798	1,829,068	1,739,142
Industrial	218,098	186,282	163,914	175,900	179,884
Industrial Monitored	362,670	633,268	820,588	868,508	549,187
Contract	834,965	915,469	919,462	907,089	901,480
Municipalities	-	-	-	-	-
Septage Haulers	-	-	-	-	-
Dewatering	132,618	21,725	12,224	38,524	32,942
Total City	<u>5,325,553</u>	<u>5,174,302</u>	<u>5,427,795</u>	<u>5,473,791</u>	<u>5,004,817</u>
Out City:					
Residential	\$ 1,696,410	\$ 1,708,603	\$ 1,887,708	\$ 1,923,100	\$ 1,818,635
Commercial	1,425,529	1,317,917	1,488,569	1,728,051	1,845,624
Industrial	109,991	123,721	105,912	112,742	87,990
Industrial Monitored	621,299	742,607	902,925	993,519	1,054,791
Contract	6,371,252	6,401,938	4,653,742	5,975,185	3,472,315
Municipalities	1,973,103	2,076,481	2,365,379	2,533,583	2,512,287
Septage Haulers	479,060	507,895	305,516	284,542	395,402
Dewatering	56,012	42,791	35,088	5,821	16,791
Total Out City	<u>12,732,654</u>	<u>12,921,953</u>	<u>11,744,839</u>	<u>13,556,543</u>	<u>11,203,835</u>
Total System:					
Residential	\$ 3,443,513	\$ 3,368,057	\$ 3,562,517	\$ 3,577,802	\$ 3,420,817
Commercial	3,455,628	3,076,021	3,325,367	3,557,119	3,584,766
Industrial	328,089	310,003	269,826	288,642	267,874
Industrial Monitored	983,969	1,375,875	1,723,513	1,862,027	1,603,978
Contract	7,206,216	7,317,407	5,573,204	6,882,274	4,373,795
Municipalities	1,973,103	2,076,481	2,365,379	2,533,583	2,512,287
Septage Haulers	479,060	507,895	305,516	284,542	395,402
Dewatering	188,629	64,516	47,312	44,345	49,733
Total System	<u>\$ 18,058,207</u>	<u>\$ 18,096,255</u>	<u>\$ 17,172,634</u>	<u>\$ 19,030,334</u>	<u>\$ 16,208,652</u>

Source: City of Kalamazoo, Public Services Department, Wastewater Division

CITY OF KALAMAZOO, MICHIGAN

**WASTEWATER SYSTEM
History of System Rate Increases**

<u>Date Increase Effective</u>	<u>Percent Increase</u>
January 1, 1984	0.00%
February 8, 1985	0.00%
March 2, 1987	2.40%
January 1, 1991	-7.50%
January 1, 1993	0.00%
January 1, 1995	0.00%
March 3, 1997	0.00%
February 1, 1998	0.00%
March 15, 1999	0.00%
July 1, 2001	4.00%
February 1, 2002	0.00%
April 30, 2004	6.75%

Source: City of Kalamazoo, Public Services Department, Wastewater Division

- * In 1999 there was a revenue neutral rate change. That is, rates for some classifications increased while rates for other classifications decreased. Overall, there was no increase in revenue.

**CITY OF KALAMAZOO,
MICHIGAN**

SINGLE AUDIT

For the Year Ended December 31, 2006



REHMANN ROBSON

Certified Public Accountants

CITY OF KALAMAZOO, MICHIGAN
Single Audit

Table of Contents

For the Year Ended December 31, 2006

	<u>PAGE</u>
Schedule of Expenditures of Federal Awards	1-2
Notes to Schedule of Expenditures of Federal Awards	3
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	4-5
Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	6-8
Schedule of Findings and Questioned Costs	9-12

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CITY OF KALAMAZOO, MICHIGAN
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2006

Federal/Pass-through Grantor Program Title	CFDA Number	Federal/ Pass-through Grantor Number	Award Amount	Federal Expenditures
U.S. Department of Housing and Urban Development				
Direct programs:				
Community Development Block Grant:				
Program year 1998/99	14.218	B-98-MC-26-0022	\$ 2,300,016	\$ 15,209
Program year 1999/00	14.218	B-99-MC-26-0022	2,290,000	82,182
Program year 2000/01	14.218	B-00-MC-26-0022	2,316,000	2,400
Program year 2001/02	14.218	B-01-MC-26-0022	2,410,000	2,544
Program year 2002/03	14.218	B-02-MC-26-0022	2,396,000	36,692
Program year 2003/04	14.218	B-03-MC-26-0022	2,168,000	69,237
Program year 2004/05	14.218	B-04-MC-26-0022	2,166,000	228,757
Program year 2005/06	14.218	B-05-MC-26-0022	2,056,687	1,077,307
Program year 2006/07	14.218	B-06-MC-26-0022	1,872,055	646,995
Total Community Development Block Grant				2,161,323
Home Investment Partnerships Program:				
Program year 2003/2004	14.239	M-03-MC-26-0207	3,954,217	436,863
Total U.S. Department of Housing and Urban Development				2,598,186
U.S. Department of Justice				
Direct programs:				
Local Law Enforcement Block Grant:				
Program year 2004/05	16.592	04-LB-BX-0350	64,918	9,255
Weed and Seed Grant:				
Program year 2004/05	16.595	2004-WS-Q4-0145	224,997	1,076
Bulletproof Vest Program:				
Program year 2006	16.607	-n/a-	14,443	4,807
Project Safe Neighborhood:				
Program year 2003/04	16.609	2003-GP-CX-0561-4-24003	125,000	75,425
COPS In School Grant:				
Program year 2003/04	16.710	2002SHWX0469	375,000	62,497
Justice Administration Grant	16.738	2005DJBX0103	72,406	33,209
Total U.S. Department of Justice				186,269

(Continued)

CITY OF KALAMAZOO, MICHIGAN
Schedule of Expenditures of Federal Awards (Concluded)
For the Year Ended December 31, 2006

Federal/Pass-through Grantor Program Title	CFDA Number	Federal/ Pass-through Grantor Number	Award Amount	Federal Expenditures
U.S. Department of Transportation				
Direct programs:				
Federal Transit Administration -				
Capital, Planning, and Operating Assistance:				
Capital 1999	20.507	MI-90-X317	\$ 1,604,901	\$ 5,755
Capital 2003	20.507	MI-90-X404	858,655	5,354
Capital 2004	20.507	MI-03-X206	3,775,993	1,108,854
Capital 2004	20.507	MI-90-X431	503,325	201,920
Capital 2005	20.507	MI-90-X455	1,632,732	77,053
Capital 2006	20.507	MI-03-0216	2,993,076	980,102
Operating	20.507		1,239,132	1,612,434
Total FTA Capital, Planning, and Operating Assistance				<u>3,991,472</u>
Environmental Protection Agency				
Direct program:				
National Brownfield Pilot - Redevelopment				
Initiative - Assistance Amendment	66.807	V985392-01-1	100,000	<u>5,904</u>
Passed-through the Michigan Department of Environmental Quality:				
Wellhead Protection Grant:				
Program year 2004/05	66.468	-n/a-	70,000	<u>67,900</u>
Total Environmental Protection Agency				<u>73,804</u>
U.S. Department of Homeland Security				
Direct program:				
Assistance to Firefighters	97.044	EMW-2004-FP-00656	161,770	133,092
Assistance to Firefighters	97.044	EMW-2005-FP-01410	339,000	<u>15,335</u>
Total U.S. Department of Homeland Security				<u>148,427</u>
Total Expenditures of Federal Awards				<u><u>\$ 6,998,158</u></u>

CITY OF KALAMAZOO, MICHIGAN

Notes to Schedule of Expenditures of Federal Awards

1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the City of Kalamazoo, Michigan (the "City"). Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on this schedule.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The City of Kalamazoo reporting entity is defined in Note I of the City's basic financial statements.

The City administers certain federal awards programs through subrecipients. Those subrecipients are not considered part of the City of Kalamazoo reporting entity. Of the federal expenditures presented in the schedule, the City of Kalamazoo provided federal awards to subrecipients as follows:

Program Title	CFDA Number	Amount Provided to Subrecipients
Community Development Block Grant	14.218	\$ 1,230,163
Home Investment Partnership Program	14.239	363,151
Local Law Enforcement Block Grant	16.592	9,255
Assistance to Firefighters	97.044	<u>127,300</u>
Total		<u>\$ 2,867,134</u>

* * * * *



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

August 28, 2007

Honorable Mayor and Members
of the City Commission
City of Kalamazoo, Michigan

We have audited the financial statements of the *City of Kalamazoo, Michigan*, as of and for the year ended December 31, 2006, and have issued our report thereon dated June 28, 2007. We did not audit the financial statements of the Downtown Development Authority and the Kalamazoo Municipal Golf Association, which represent 13.3% and 4.1% of the assets and 24.2% and 5.3% of the revenues of the aggregate discretely presented component units, respectively. Those financial statements were audited by other auditors whose reports were furnished to us, and our opinion, insofar as it relates to the amounts included for the Downtown Development Authority and the Kalamazoo Municipal Golf Association, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Kalamazoo Golf Association were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the *City of Kalamazoo, Michigan's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraphs and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the *City of Kalamazoo, Michigan's* ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the *City of Kalamazoo, Michigan's* internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. The significant deficiencies are described in the accompanying schedule of findings and questioned costs as items 2006-1 and 2006-2.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the *City of Kalamazoo, Michigan's* internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *City of Kalamazoo, Michigan's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests and the reports of the other auditors disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Kalamazoo, Michigan, in a separate letter dated August 28, 2007.

This report is intended solely for the information and use of the audit committee, management, others within the organization, City Commission, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.





**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

August 28, 2007

Honorable Mayor and Members
of the City Commission
City of Kalamazoo, Michigan

Compliance

We have audited the compliance of the ***City of Kalamazoo, Michigan*** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. The ***City of Kalamazoo, Michigan's*** major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the ***City of Kalamazoo, Michigan's*** management. Our responsibility is to express an opinion on the ***City of Kalamazoo, Michigan's*** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the ***City of Kalamazoo, Michigan's*** compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the ***City of Kalamazoo, Michigan's*** compliance with those requirements.

In our opinion, the ***City of Kalamazoo, Michigan*** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

Internal Control Over Compliance

The management of the *City of Kalamazoo, Michigan* is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the *City of Kalamazoo, Michigan's* internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Kalamazoo, Michigan*, as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 28, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Kalamazoo's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

We did not audit the financial statements of the Downtown Development Authority and the Kalamazoo Municipal Golf Association, which represents 13.3% and 4.1% of the assets and 24.2% and 5.3% of the revenues of the aggregate discretely presented component units, respectively. Those financial statements were audited by other auditors whose reports were furnished to us, and our opinion, insofar as it relates to the amounts included for the Downtown Development Authority and the Kalamazoo Municipal Golf Association, is based solely on the reports of the other auditors.

This report is intended solely for the information and use of the audit committee, management, others within the organization, City Commission, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

CITY OF KALAMAZOO, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2006

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Significant deficiencies identified
not considered to be material weaknesses?

X yes _____ none reported

Noncompliance material to financial statements
noted?

_____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

_____ yes X no

Significant deficiencies identified
not considered to be material weaknesses?

_____ yes X none reported

Type of auditors' report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section 510(a)?

_____ yes X no

CITY OF KALAMAZOO, MICHIGAN

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended December 31, 2006

SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$300,000</u>
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Auditee qualified as low-risk auditee?	<u> X </u> yes <u> </u> no
--	-----------------------------------

SECTION II – FINANCIAL STATEMENT FINDINGS

2006-1 Utility Billing System

Criteria: The City is responsible for maintaining a general ledger that accurately reflects its financial position. In addition, balances on the general ledger should be supported by adequate subsidiary ledgers and documentation.

Condition: At year end, there was a \$40,000 unreconciled difference between the general ledger and the utility billing system for accounts receivable from utility customers.

Cause: The cause of this condition is two-fold: 1) reports are generated by the utility billing system before all prior period dated items have been identified, and 2) the inexperience of assigned staff to recognize items for reconciliation.

Effect: This condition increases the risk that revenues and receivables related to the utility billing system could be misstated by an amount that is more than inconsequential. Also, the unreconciled differences between the general ledger and the utility billing system lead to less useful information for decision making throughout the year.

CITY OF KALAMAZOO, MICHIGAN

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended December 31, 2006

Recommendation: We recommend that the City take the steps necessary to ensure that these amounts are accurately reconciled each month on a timely basis so that decision makers have the best information at their disposal throughout the year.

**Management's
Response:**

The City experienced a large turnover in key financial staff, which led to less experienced staff reconciling accounts. The City agrees that the current Utility Billing subsidiary ledger system has reporting limitations, which require detailed reconciliations to be completed between the billing system and the general ledger system. The City recognizes that these system limitations increase our risk that revenues and receivables related to the utility billing system to be misstated.

During 2006, the City began a multi-year conversion to a new Enterprise Resource System that includes a new Utility Billing module. We completed the implementation of our general ledger in the fall of 2006. A new Utility Billing module will be implemented in 2008 and we are confident that the ERP system will improve the reconciliation process of the Utility Billing module and the General Ledger.

2006-2 Accounting for Assets Held for Resale

Criteria: Generally accepted accounting principles require capital assets acquired with the express intent of resale to be reported as financial assets in governmental funds. The City's internal controls should include procedures to identify all significant assets held by the City and to record such assets in the accounting system.

Condition: External audit procedures (which, by definition, cannot be a part of an entity's internal control structure) detected the existence of significant balances of assets held for resale.

Cause: The internal controls of the City failed to identify assets held for resale in the Neighborhood and Community Development Fund.

CITY OF KALAMAZOO, MICHIGAN

Schedule of Findings and Questioned Costs (Concluded)

For the Year Ended December 31, 2006

Effect: Assets of the government-wide and Neighborhood and Community Development Special Revenue Fund were initially understated by \$412,633. When the condition was detected during the audit, management performed an analysis of properties held for resale and recorded entries to properly reflect the inclusion of such assets in the accounting system.

Recommendation: We recommend that the City analyze its internal controls to ensure all significant assets are identified and recorded.

Management's

Response:

The City agrees that our internal controls failed to identify assets held for resale in the Neighborhood and Community Development Fund.

The City has identified and developed an internal control process to ensure that these types of transactions and purchases are recorded properly in the future. The new process will ensure that any future property purchases and rehabilitation costs are recorded in accordance with generally accepted accounting principles.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

SECTION IV – PRIOR YEAR FINDINGS

None.

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



August 28, 2007

To the City Commission of the
City of Kalamazoo
Kalamazoo, Michigan

We have audited the financial statements of the City of Kalamazoo for the year ended December 31, 2006, and have issued our report thereon dated June 28, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated January 30, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the City of Kalamazoo's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City of Kalamazoo's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City of Kalamazoo's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the City of Kalamazoo's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City of Kalamazoo's compliance with those requirements.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Kalamazoo are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City of Kalamazoo during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the original cost and accumulated depreciation of its infrastructure capital assets is based on current replacement costs, and an assumed rate of inflation from the dates of original acquisition/construction. We evaluated the key factors assumptions used to develop the original cost and accumulated depreciation of the City's infrastructure capital assets in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the liability for uninsured risks of loss, including incurred but not reported claims, which are accounted for in certain of the City's internal service funds and for which the City utilizes the services of an independent third-party risk management consultant to estimate the liability. We relied upon the work of the third-party expert in determining that the liability is reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of Kalamazoo's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by [the City of Kalamazoo, either individually or in the aggregate, indicate matters that could have a significant effect on the City of Kalamazoo's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Kalamazoo’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the City Commission management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive, flowing style with a large initial 'L'.

City of Kalamazoo

Comments and Recommendations

For the Year Ended December 31, 2006

In planning and performing our audit of the financial statements of the City of Kalamazoo as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be significant deficiencies are described in the Schedule of Findings and Questioned Costs in the City's Single Audit report.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Other Matters

Unlawful Expenditures

In its Bulletin for Audits of Local Units of Government, the State of Michigan provides guidance on determining lawful expenditures. Essentially, local units of government can only expenditures that relate to a public purpose unless specifically allowed by State statute or court decision. During our audit of the City, we came across several expenditures that appear to be unlawful, or illegal.

During the year, the City made a contribution of \$100,000 to the Kalamazoo Communities in Schools Foundation for the purpose of providing multiple services in area schools. In previous years, similar payments had been made under a subrecipient agreement between the City and the Foundation under the City's CDBG program. Due to a change in the funding of the City's CDBG program, the 2006 payment was made from the general fund as an appropriation. However, such payments are not lawful expenditures under State law. In order to comply with the guidance issued by the State of Michigan, we recommend that the City structure any future payments to nonprofit organizations as contracts for services, rather than as contributions or appropriations.

City of Kalamazoo

Comments and Recommendations (Concluded)

For the Year Ended December 31, 2006

It also came to our attention that City has been holding staff picnics and other celebrations for its employees and funding these with public dollars. Meals for employees during normal working hours are considered personal expenditures, not for a public purpose, and improper unless specifically provided for in a collective bargaining agreement. We reviewed the collective bargaining agreements for the employees who attended the specific events we discovered and found no such provision. It is our understanding that the City's provision of food and beverages to its employees during normal working hours is fairly pervasive. We recommend that the City coordinate with its attorney to develop a policy on such expenditures, and either amend its personnel handbook or otherwise restructure these payments in such a way as to comply with State law.

Undistributed Receipts

The City uses an undistributed receipts account to record payments that require a later distribution of funds. Activity in this fund includes monies received from City and State tax foreclosures as well as claw back monies received from companies in default of tax abatement agreements. Normally, it is expected that these funds will be distributed in a timely manner (i.e. within 30 days of receipt or City Commission approval). During fiscal year 2006, the City did not make any distributions while adding an additional \$100,000 to the account, bringing the 2006 year end balance close to \$340,000. We recommend that the Treasurer's Office distribute the balance of this account in accordance with State guidelines and City policy.

The City Treasurer, Tax Collection Coordinator and Treasury Records Clerk intend to focus on this account to disburse those funds that are deemed eligible for distribution. It is anticipated that this process will be completed by the end of July 2007. Thereafter, funds will be distributed within 30 days of receipt or within 30 days of City Commission approval to convey the property.

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